

## TW Notes on

Sendhil Mullainathan and Eldor  
Shafir Scarcity: Why Having So  
Little Means So Much  
Henry Holt 2013

focus dividend from scarcity  
Capturing the mind It happens  
unavoidably and beyond our control  
but this comes at the cost of  
neglecting other things

They call this tunneling. It operates  
by changing what comes to mind  
Goal inhibition is the underlying  
mechanism

Inhibition generates both the costs  
and benefits of scarcity

The tunneling tax

Effects include not buying insurance  
and multitasking

Tunneling distorts the tradeoffs we make  
Scarcity taxes our bandwidth and generates  
internal disruption

Top down versus bottom up processing

Top down attention cannot prevent  
bottom up intrusions

Cognitive capacity & executive control  
scarcity and worry - It generates stress  
mental budgeting & tradeoffs  
slack allows us to feel there's  
no tradeoff - no things deliberately  
left unused but by-product of  
abundance

choice is hard  
"planning fallacy" excessive optimism  
slack absorbs error

The temptation tax is regressive  
Scarcity will lead us to greater errors  
They define scarcity as "a subjective  
sense of having more needs than  
resources" p 88

People sometimes act as if small  
amounts mean a lot

For the same absolute savings  
people act as if it's more if it's a  
higher % of the price

"While relative perception is inherently  
part of how the mind processes  
information, experience and  
expertise allows us to transcend it"

p 92

ME2



Abundance means freedom from tradeoffs

Under abundance we don't have a good sense of the value of small amounts of money and this leaves us open to manipulation

"Many biases and inconsistencies discovered by behavioral economists are really about people struggling to make sense of the dollar" p 98

Issue of constructing value from arbitrary local context  $\rightarrow$  to optical illusions from backgrounds

The poor are likely to be less subject to mental accounting

They test borrowing as a consequence of tunneling

Busy people tend to neglect the important but not urgent problems

Scarcity makes us short sighted

ME3

Scarcity traps - getting one step behind. It's based on a misuse of resources that creates an effective shortage

Juggling as a consequence of tunneling  
This leads to predictable events being treated as shocks - It's about having a lot on one mind

Recent research finds that self-control may ~~can~~ get depleted as we use it  
To be free of scarcity & you don't just need enough resources on average ~~to~~ but also need slack to deal with shocks

"During periods of abundance, we waste time & money" 138

Some slack is needed to be efficient  
The fire fighting traps  
Manage the right scarce resource

"Bandwidth is about allocating our limited information processing abilities" p 215

A lot of ch 10 reads like Nudge



"Simply making trade-off can be taxing" p 217

The importance of timing bandwidths  
"Scarcity often begins with abundance"  
so build in slack during these periods p 222

"Scientists tend to measure what their theories tell them to measure" 228

"... we know next to nothing about the cognitive side of the economy" 229  
bandwidth inventories

One reason for the financial crisis of 2008 was "cognitive blind spots" about house prices p 233