

IELTS Listening Lesson 16

Setting:

You will hear a university professor giving a lecture to an introductory economics class on the topic of behavioral economics.

Questions 1–5

Complete the sentences below. Write NO MORE THAN TWO WORDS for each answer.

1. Behavioral economics incorporates elements from both psychology and _____.

2. The idea that people experience losses more strongly than gains is

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rather than perfect.

5. People often treat money differently depending on how it is earned or categorized. This is called _____.

Questions 6–8

Choose the correct letter, A, B, or C.

6. What is the main difference between traditional and behavioral economics?

A. Traditional economics includes sociology and politics.

- B. Behavioral economics assumes perfect rationality.
 - C. Behavioral economics accepts that people are not always rational.
7. Which example best illustrates the use of a *nudge*?
- A. Charging a late fee for overdue books
 - B. Automatically enrolling workers in a savings plan
 - C. Offering discounts for early payment
8. What was one surprising result from the study on jam varieties?
- A. People preferred jams with less sugar.
 - B. People bought more when offered fewer choices.
 - C. People were more satisfied with expensive jams.

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9. Anchoring

10. Status quo bias

Descriptions:

- A. People dislike losing more than they enjoy winning
 - B. People avoid making changes to default settings
 - C. People prefer options with the highest value
 - D. People make decisions based on initial figures
 - E. People make irrational decisions based on emotions
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Script

Good morning, everyone. Today we're diving into an exciting and relatively modern branch of economics—*behavioral economics*. Now, unlike traditional economics, which assumes people always make rational decisions, behavioral economics recognizes that humans often act irrationally—but predictably irrationally. It blends insights from psychology with economic theory to explain why people sometimes make decisions that go against their best interests.

Let's start with one of the most well-known concepts: *loss aversion*. This idea comes from a theory called *prospect theory*, developed by Daniel Kahneman and Amos Tversky in the 1970s. Loss aversion suggests that

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\$10 discount if they pay early. That's fine. But if instead they frame it as a \$10 penalty for late payment, customers are much more likely to pay on time. Why? Because people are more motivated to avoid a loss than to secure a gain. Same \$10—totally different reaction.

Another major concept is *anchoring*. This refers to the human tendency to rely too heavily on the first piece of information offered—the “anchor”—when making decisions. Let me give you a classic example. If I ask one group of students whether the tallest redwood tree is taller or shorter than 1,200 feet, and then ask them to guess its actual height, their average guess will be significantly higher than a second group who were

asked whether it's taller or shorter than 200 feet. The initial number—regardless of its accuracy—sets a mental reference point.

Anchoring has real-world consequences, particularly in pricing. A retailer might list a jacket at \$300 but offer it on sale for \$150. Even if that jacket is only worth \$150 to begin with, the \$300 anchor makes the deal seem more appealing. You think you're saving \$150, even though you might not have paid that much in the first place.

Now, behavioral economics also pays a lot of attention to something called *bounded rationality*. This term, introduced by Herbert Simon, refers to the fact that people don't have unlimited time, cognitive resources, or information. So instead of making the optimal decision, we often settle for

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probably browse a few listings, visit two or three places, and pick one that meets most of your criteria. That's satisficing in action.

Related to this is the idea of *choice overload*. In traditional economic models, more choice is always better. But in practice, when people are faced with too many options, they often feel overwhelmed and either make no decision or regret the choice they do make. A famous study on jam varieties showed that people were more likely to buy a jar of jam when offered a choice of 6 options rather than 24. Too many options can paralyze us.

Let's touch briefly on *nudges*. This term was popularized by Richard Thaler, who won a Nobel Prize for his work in behavioral economics. A nudge is a subtle policy shift that encourages people to make certain choices without restricting their freedom. For example, automatically enrolling employees in a retirement savings plan—but still allowing them to opt out—has been shown to drastically increase participation rates. The key is that the default is changed, but the choice is still theirs.

Nudges have been used effectively in public health, education, and financial planning. One example you might've seen is placing fruit at eye level in cafeterias to encourage healthier eating. It's a simple design tweak, but it leverages human psychology in a powerful way.

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Another point worth discussing is *mental accounting*. This refers to the way people treat money differently depending on its source or intended use. For example, someone might splurge a \$500 tax refund on a vacation but hesitate to use the same amount from their paycheck. Economically speaking, money is fungible—it's all the same—but psychologically, it's not. This affects saving behavior, budgeting, and consumption patterns.

Lastly, let's talk about *status quo bias*. People tend to prefer things to stay the same, even when a change would be beneficial. This is why many people stick with default options—like not changing their energy provider or insurance plan—even if switching would save them money. This bias is

one of the reasons default settings are so powerful in behavioral policy design.

So, to summarize: behavioral economics helps us understand that real people don't always behave like the rational agents imagined in classical economic theory. Instead, they are influenced by emotions, cognitive biases, and mental shortcuts. The field has grown rapidly and now plays a key role in designing better public policies, marketing strategies, and even user interfaces.

If this has piqued your interest, I recommend reading *Nudge* by Thaler and Sunstein, and *Thinking, Fast and Slow* by Kahneman. Both are foundational texts in the field and highly accessible.

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Answer Key

1. economics
2. loss aversion
3. anchor
4. bounded rationality
5. mental accounting
6. C
7. B
8. B
9. D
10. B

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