Abstract

Consumers' decision biases make them vulnerable to market exploitation. "Libertarian paternalism" (a.k.a "nudging") is the viewpoint that this problem can be mitigated by "soft" interventions like disclosure or "default architecture". However, the case for nudging is often made without an explicit model of the boundedly rational choice procedures that lie behind consumer biases. I demonstrate that once such models are incorporated into the analysis, equilibrium market reaction to nudges can reverse their theoretical consequences.