

# Public policy formulation

[Business](#), [Branding](#)



Name: Instructor: Course: Date: Public Policy Formulation The policy process is influenced because human beings are egoistic, calculative and self-interested beings and therefore base their decisions on the benefits they will realize from their choices as well as the costs they will incur in accomplishing their needs or goals. Usually, decision-making requires the input of rationality in order to make decisions that are reasonable and solve the stated problem or objective. Assessing rationality in decision-making and policy formulation requires acknowledging the ideas in the chapter, “Understanding Behavior: Rational Man and Woman” in the book, Introduction to Public Policy by Charles Wheelan and the article, “Effective Choice in the Prisoner’s Dilemma” by Robert Axelrod. A Summary of “Understanding Behavior: Rational Man and Woman” One of the fundamentals in understanding human and firm behavior is through models. Policy makers use these representations of actual situations to gain insight on typical behavior. For instance, the Supply and Demand model depicts consumer and producer behavior in the economy based on assumptions that underlie the Law of Supply and Demand. Through the model example, one is able to understand that policy makers base their models on the Ceteris Paribus principle, which allows them to focus on a sole problem while deeming all other factors constant.

However, it is true that every problem comprises factors that affect its structure. By recognizing the reason for certain behavior among firms and people, good policies provide effective policy solutions that are either compatible with the respective behavior or solutions that include incentives for change in the behavior in a manner consistent with positive social

outcome. Another reason that explains human and firm behavior is maximization of utility and profits. For humans, maximizing utility determines the different behaviors that they exhibit. As a theoretical concept, utility equals satisfaction or well being. Collectively, individuals seek to maximize their utility by engaging in pleasurable activities. Likewise, people maximize utility by engaging in unpleasant activities in order to avoid incidents that will disrupt their utility.

However, the reality of scarcity in resources hinders utility maximization and thus provides the choice of forgoing a certain activity in order to maximize a subsequent utility. This is opportunity cost, which can be used effectively in examining human behavior. Consequently, firms base financial decisions based on the maximum gains they will receive from the decisions. The assumption that firms maximize seek to maximize profits provides insight for public policy centered on incentives as the main motivator. Consequently, non-monetary incentives affect firm behavior if they affect profits.

The availability of information also determines human and firm behavior. One common assumption of human behavior models is that all parties to a matter possess complete information. However, at times relevant information is difficult to acquire. Thus, in the event that a party holds greater or larger information than another, information asymmetry is witnessed.

Concurrently, a wide information gap between the parties can restrict means in which markets function and make them fail. This depicts the relevance of information to public policy information based on understanding human and

firm behavior in the face of incomplete information and the fact that policy makers occasionally restructure information problems. Consequently, information asymmetry has led to engagement in adverse selection where individuals use specific private information that is beneficial to them in a market. The implications of such an act are serious enough to distort the respective market or even force it to collapse.

The problems inherent in information can immobilize markets and thus create socially incompetent outcomes. Regardless of the information problems, it is crucial to identify that markets are extremely resilient even in the problem of incomplete information. Individuals and organizations create numerous strategies for ensuring that transactions work in the event of an information asymmetry situation devoid of public policy intervention. Such strategies include branding, signaling, certification and screening.

Regardless of the various factors that determine human and firm behavior, most policy analysts express the main idea that rational decisions are made by individuals for the purpose of welfare maximization, which is indeed accurate. A Summary of “ Effective Choice in the Prisoner’s Dilemma” The Prisoner’s Dilemma assesses the aspect of cooperation in making rational decisions. The game involves two players who are required to select between two moves, Cooperate or Defect. The idea implied by the Prisoner’s Dilemma is that each player gains when they choose to cooperate.

However, if one cooperates, the other one who defects gains more. Consequently, if both defect, both lose. The Prisoner’s Dilemma is a classic illustration of the pressure between personal rationality, depicted in the

incentive of both sides to be selfish and group rationality, reflected in greater payoff to both sides attributed to mutual cooperation. The study assesses the results arising in the second round of the tournament in a Prisoner's Dilemma's setting.

The objective is to gain a deeper comprehension of optimum performance in Prisoner's Dilemma. Additionally, the study assesses the relationship between decision rules made by the players and their impact in a Prisoner's Dilemma. Through this assessment, an individual is able to determine the interdependence of decision rules between players. Simply put, every decision rule made by the player is interdependent of the other. The approach of the tournament as because players were aware of the intelligence of their counterparts and that each was determined to experience maximum payoff arising from decisions. The tournament's first round saw the integration of computer programs that input the players' interaction history and the decision made on the first move as output.

The entries, which were 14, were paired with their own twin and with a program that indiscriminately defects and cooperates with same probability. The Tit for Tat strategy was the winner of the tournament's first round. The strategy, which cooperates on the first move and performs the choice the player made in the previous move provided insight on the aspects of successful rules as well as the consequences arising from the interaction of a pair of refined strategies. The second round provided greater insight on the nature of effective choice in the Prisoner's Dilemma due to the fact that the second round players were provided with a comprehensive assessment of

the previous round. Equally, the assessment included discussion on an array of supplemental rules that could have been successful and efficient in the first round. Thus, the players were aware of the first round results and the intelligence of their current counterparts. The successful strategy, Tit for Tat, won both rounds.

Irrespective of the fact that the 62 entries in the second round were familiar with the strategy in the first round, the Tit for Tat strategy still won based on its aspects of niceness and forgiveness. Niceness implied the strategy's property of never being the earliest to defect. Forgiveness implied the strategy's propensity to cooperate after defection by the other player. In the first round, the winning rule's Niceness property asserted that initial defection was costly. Simply, players could never realize maximum payoff in the event that they defected first. However, one aspect of the Niceness property that proved to be disadvantageous was its absence of provocability. Irrespective of the advantage realized from avoiding initial defection, it is also advantageous to be prepared to defect immediately after a surprise defection by the other player, an aspect defined as provocability. Thus, the aspects of niceness, forgiveness and provocability provided insight into the success of the Tit for Tat rule.

The rule illustrated the aspects commendably. In summary, the Tit for Tat rule is the most successful since it is never the first to defect, forgives an isolated defection after a single response but it is always provoked by a defection regardless of the degree of fairness in the interaction. Applying this to rational decision making in a real time environment, it is evident that it

pays to be nice and forgiving simultaneously. Correspondingly, taking advantage of niceness and forgiveness resulted in decrease in the payoff that would have been received if there was cooperation.

Therefore, it is correct to assert that the Tit for Tat strategy is the best decision rule for Prisoner's Dilemma since it reinstates cooperation, avoids trouble and dejects the other side from persistence incase of a tried defection. In conclusion, public policy formulation requires an in-depth understanding of the behavior exhibited by individuals and firms in a given situation and an inclusion of the best strategies that can be used to create polices that produce maximum payoff in general. Understanding human and firm behavior provides a platform in formulating policies that address the public. Equally, the Prisoner's Dilemma motivates policy makers to mutually cooperate and abandon self-interest in order to create efficient and effective decisions.

Correspondingly, both address the impact of rationality in decision-making and collectively agree that rational decision-making amounts to making decisions based on self-interest and welfare maximization.