PSYCHOLOGICAL ANALYSIS OF ECONOMIC BEHAVIOR pdf

1: Katona (George) - Psychological Analysis of Economic Behavior

Psychological Analysis of Economic Behavior. By GEORGE KATONA. McGraw-Hill Book Company, Inc. New York. Edition 1, pages. I N A SUBSTANTIAL number of fields in eco-.

Nudge theory Richard Thaler , winner of the Nobel Prize in economics Nudge is a concept in behavioral science , political theory and economics which proposes positive reinforcement and indirect suggestions as ways to influence the behavior and decision making of groups or individuals. Nudging contrasts with other ways to achieve compliance, such as education , legislation or enforcement. The concept has influenced British and American politicians. The first formulation of the term and associated principles was developed in cybernetics by James Wilk before and described by Brunel University academic D. Stewart as "the art of the nudge" sometimes referred to as micronudges [37]. It also gained a following among US and UK politicians, in the private sector and in public health. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting fruit at eye level counts as a nudge. Banning junk food does not. In this form, drawing on behavioral economics, the nudge is more generally applied to influence behaviour. In other words, a nudge alters the environment so that when heuristic, or System 1, decision-making is used, the resulting choice will be the most positive or desired outcome. Regarding its application to HSE, one of the primary goals of nudge is to achieve a "zero accident culture". These companies are using nudges in various forms to increase the productivity and happiness of employees. Recently, further companies are gaining interest in using what is called "nudge management" to improve the productivity of their white-collar workers. Ethicists have debated this rigorously. Similarly, legal scholars have discussed the role of nudges and the law. Behavioral finance[edit] Robert J. Shiller , winner of the Nobel Prize in economics The central issue in behavioral finance is explaining why market participants make irrational systematic errors contrary to assumption of rational market participants. The study of behavioral finance also investigates how other participants take advantage arbitrage of such errors and market inefficiencies. Behavioral finance highlights inefficiencies, such as under- or over-reactions to information, as causes of market trends and, in extreme cases, of bubbles and crashes. Such reactions have been attributed to limited investor attention, overconfidence, overoptimism, mimicry herding instinct and noise trading. Loss aversion appears to manifest itself in investor behavior as a reluctance to sell shares or other equity if doing so would result in a nominal loss. Benartzi and Thaler, applying a version of prospect theory , claim to have solved the equity premium puzzle , something conventional finance models so far have been unable to do. Quantitative behavioral finance[edit] Quantitative behavioral finance uses mathematical and statistical methodology to understand behavioral biases. In marketing research, a study shows little evidence that escalating biases impact marketing decisions. One characteristic of overreaction is that average returns following announcements of good news is lower than following bad news. In other words, overreaction occurs if the market reacts too strongly or for too long to news, thus requiring an adjustment in the opposite direction. As a result, outperforming assets in one period is likely to underperform in the following period. They contend that behavioral finance is more a collection of anomalies than a true branch of finance and that these anomalies are either quickly priced out of the market or explained by appealing to market microstructure arguments. However, individual cognitive biases are distinct from social biases; the former can be averaged out by the market, while the other can create positive feedback loops that drive the market further and further from a " fair price " equilibrium. Similarly, for an anomaly to violate market efficiency, an investor must be able to trade against it and earn abnormal profits; this is not the case for many anomalies. It is argued that the cause is entry barriers both practical and psychological and that returns between stocks and bonds should equalize as electronic resources open up the stock market to more traders. Experiments include testing deviations from typical simplifications of economic theory such as the independence axiom [77] and neglect of altruism , [78] fairness , [79] and framing effects. Early attempts along these lines focus on the behavior of rats and pigeons. These studies draw on the tenets of comparative psychology , where the main goal is to discover analogs to human behavior in experimentally -tractable non-human animals. They are also methodologically similar to the work of Ferster and Skinner.

Recent studies have adopted a slightly different approach, taking a more evolutionary perspective, comparing economic behavior of humans to a species of non-human primate , the capuchin monkey. These studies looked at things like peck rate in the case of the pigeon and bar-pressing rate in the case of the rat given certain conditions of reward. Use of this laboratory is predicated on the fact that behavior, as well as structure, vary continuously across species, and that principles of economic behavior would be unique among behavioral principles if they did not apply, with some variation, of course, to the behavior of nonhumans. Labor supply[edit] The typical laboratory environment to study labor supply in pigeons is set up as follows. Pigeons are first deprived of food. Since the animals become hungry, food becomes highly desired. The pigeons are then placed in an operant conditioning chamber and through orienting and exploring the environment of the chamber they discover that by pecking a small disk located on one side of the chamber, food is delivered to them. In effect, pecking behavior becomes reinforced , as it is associated with food. Before long, the pigeon pecks at the disk or stimulus regularly. In this circumstance, the pigeon is said to "work" for the food by pecking. The food, then, is thought of as the currency. The value of the currency can be adjusted in several ways, including the amount of food delivered, the rate of food delivery and the type of food delivered some foods are more desirable than others. Researchers argue that this is similar to labor supply behavior in humans. That is, like humans who, even in need, will only work so much for a given wage , the pigeons demonstrate decreases in pecking work when the reward value is reduced. This means that as the price of a certain good increase, the amount that consumers are willing and able to purchase decreases. Researchers studying the demand curves of non-human animals, such as rats, also find downward slopes. Researchers have studied demand in rats in a manner distinct from studying labor supply in pigeons. Specifically, in an operant conditioning chamber containing rats as experimental subjects, we require them to press a bar, instead of pecking a small disk, to receive a reward. The reward can be food reward pellets , water, or a commodity drink such as cherry cola. Unlike in previous pigeon studies, where the work analog was pecking and the monetary analog was a reward, the work analog in this experiment is bar-pressing. Under these circumstances, the researchers claim that changing the number of bar presses required to obtain a commodity item is analogous to changing the price of a commodity item in human economics.

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2: Behavioral Economics | Investopedia

The foundations of neoclassical theory came under sustained attack beginning in the s. The foundations are rationality, maximization, and (allocative) efficiency.

In economics, rational choice theory states that when humans are presented with various options under the conditions of scarcity , they would choose the option that maximizes their individual satisfaction. This theory assumes that people, given their preferences and constraints, are capable of making rational decisions by effectively weighing the costs and benefits of each option available to them. The final decision made will be the best choice for the individual. The rational person has self-control and is unmoved by emotions and external factors and, hence, knows what is best for himself. Alas behavioral economics explains that humans are not rational and are incapable of making good decisions. Behavioral economics draws on psychology and economics to explore why people sometimes make irrational decisions, and why and how their behavior does not follow the predictions of economic models. Decisions such as how much to pay for a cup of coffee, whether to go to graduate school, whether to pursue a healthy lifestyle, how much to contribute towards retirement , etc. Behavioral economics seeks to explain why an individual decided to go for choice A, instead of choice B. Because humans are emotional and easily distracted beings, they make decisions that are not in their self-interest. For example, according to the rational choice theory, if Charles wants to lose weight and is equipped with information about the number of calories available in each edible product, he will opt only for the food products with minimal calories. Behavioral economics states that even if Charles wants to lose weight and sets his mind on eating healthy food going forward, his end behavior will be subject to cognitive bias, emotions, and social influences. If a commercial on TV advertises a brand of ice cream at an attractive price and quotes that all human beings need 2, calories a day to function effectively after all, the mouth-watering ice cream image, price, and seemingly valid statistics may lead Charles to fall into the sweet temptation and fall out of the weight loss bandwagon, showing his lack of self-control. Applications One application of behavioral economics is heuristics , which is the use of rules of thumb or mental shortcuts to make a quick decision. However, when the decision made leads to error, heuristics can lead to cognitive bias. Another field in which behavioral economics can be applied to is behavioral finance, which seeks to explain why investors make rash decisions when trading in the capital markets. Companies are increasingly incorporating behavioral economics to increase sales of their products. Also, consider a soap manufacturer who produces the same soap but markets them in two different packages to appeal to multiple target groups. One package advertises the soap for all soap users, the other for consumers with sensitive skin. The latter target would not have purchased the product if the package did not specify that the soap was for sensitive skin. Notable individuals in the study of behavioral economics are Nobel laureates Gary Becker motives, consumer mistakes; , Herbert Simon bounded rationality; , Daniel Kahneman illusion of validity, anchoring bias; and George Akerlof procrastination;

3: Psychological Analysis of Economic Behavior

Behavioral economics attempts to integrate psychologists' understanding of human behavior into economic analysis. In this respect, behavioral economics parallels cognitive psychology, which.

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4: behavioural economics | Definition of behavioural economics in English by Oxford Dictionaries

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