Iosr Journal Of Economics And Finance (Iosr-Jef)
E-Issn: 2321-5933,P-Issn: 2321-5925.Volume 15, Issue 2 Ser. 2 (Mar. – Apr. 2024),Pp 43-47
www.Iosrjournals.Org

Behavıoral Economıcs And Psychologıcal Foundatıons Of Economıc Behavıor

İsa Altınışık,
Vocational School Of Social Sciences, Selçuk University, Konya, Türkiye

Abstract
Behavioral economics explains economic phenomena and events with human psychology, assuming that individuals act in line with their skills, prejudices, attention levels and internalized values in economic decision-making processes. Behavioral economics argues that people do not always make decisions based on their own benefit and within the framework of a rational thought system. According to behavioral economics, irrational behavior and thoughts can directly affect many decisions individuals make in daily life. Economic modeling and theories should also take into account the psychological and sociological factors that affect the human decision-making process. Behavioral economics is in close relationship with psychology, sociology, anthropology and economic sciences.
Key Words: *Behavioral economics, Psychological Foundations,*

Date of Submission: 01-04-2024 Date of acceptance: 10-04-2024

I. Introduction

It is a method of economic analysis that considers human behavior from the perspective of psychology to explain economic decision-making. Behavioral economics is an effort to expand the explanatory power of economics to a more realistic base, with the contribution of other social sciences, especially sociology, as well as psychology. It is an effort to expand and improve standard economics' models of rationality and equilibrium. In examining the economy, which has become quite complex and integrated today, it is important to include the human factor in the analyzes within the framework of realistic foundations (ansiklopedi.tubitak.gov.tr).

Behavioral economics began to emerge by targeting neoclassical economics' disconnection from humans until the 1980s. It first emerged as a fundamental criticism of microeconomics and by criticizing the rational human concept of neoclassical economics and refuting it with experiments. Behavioral economics has carried out research on knowing people well in economic terms and classifying their actions, based on the concepts of human economic behavior and preferences (kesam.klu.edu.tr).

Behavioral economists examine the attitudes and behaviors of consumers and business people in a certain period and country with empirical methods, using experiments when necessary. In these studies, the reasons underlying savings, consumption and investment decisions and the role of emotions in decision-making processes are also investigated. Although this current of economic thought has been widely discussed in public, it has not yet become a consistent school within itself. Another criticism of this movement is that the empirical information and findings obtained through experiments do not correspond to the real situation in the markets (www.ekonomim.com).

II. Behavioral Economics

Economics has used mathematics for a long time in solving problems faced in economics. This process prevented economics from being in a structure related to other sciences. When the process from past to present is examined, many economic theorists have used mathematical formulations because the phenomena in the economy are measurable and testable. However, some economists argue that economics is a social science with human factors, revealing that it is directly related to humans. Therefore, the complexity and unpredictability of human behavior has made it necessary to review economic theories. Because behaviors vary from person to person and each person is a unique action. This phenomenon revealed that economic situations cannot be determined only by mathematical methods and emphasized that psychology should also be included in this phenomenon (Çetin, 2023:156)

Behavioral economics is an economic study that contradicts the concept of "rational human" stated by traditional economic theory. The human defined by traditional economics is either an "economic man" or an imaginary character called "homoeconomicus". The human type defined here is the rational selfish person. However, humans are not completely rational beings in real life. Therefore, there are emotional effects in

economic decisions. However, in traditional economics and economic studies, no distinction is made between real humans and economic humans. Behavioral economics has addressed this distinction. In other words, people do not always act rationally when making decisions, but are also affected by other psychological and sensory factors. For this reason, behavioral economics is closely related to disciplines such as psychology, sociology, anthropology and neurology and aims to experimentally demonstrate the inconsistencies that people show when making decisions (Ünal, 2019:31)

Economics and psychology are two branches of science that study humans. While economics deals with the economic decisions made by individuals and the reasons for these decisions; Psychology deals with human behavior. Behavioral economics emerged from the combination of these two sciences. Economics, like other social sciences, develops theories to better understand the world. These theories consist of many explicit or implicit assumptions to analyze and explain economic events. Behavioral economics is important at the point where these theories do not coincide with empirical findings. Behavioral economics analyzes economic events with more realistic psychological foundations (Düz, 2021:5).

III. Psychological Foundations Of Economic Behavior

Behavioral economics is an umbrella approach that strives to expand the framework of standard economics in order to explain the relationship between the characteristics of human behavior and the gap in the standard economics framework (Kamilçelebi, 2016:1). Consumers; income level, social class, social environment, physical environment, occupational group, gender, education, etc. Although they are similar in many points, they differ in terms of consumption patterns. The most important reason for this is that the psychological and sensory worlds are different from each other. However, when the desires, habits and restrictions that can be considered objective for every consumer in general are accepted as common criteria for the consumer, they are the primary influencers of consumption behavior (Çekiç, 2016:39).

Cognitive, motivational and emotional characteristics come to the fore when people make decisions. These features are important to survive and function within the complex structure of the world we live in. Although in some cases we need to spend intense time and effort to solve the problems we encounter, this effort generally does not coincide with the results revealed by rational choice theory (Yalçın, 2012:15).

Individuals choose between alternatives in the decision-making process. When making these choices, it is important how the alternatives are presented. It has been observed that individuals are affected by the way they are presented during the choice. In studies conducted in the field of behavioral economics, different answers are given when the same question is asked in different ways (Solak, 2019:28).

Nudges

People often make wrong decisions because they do not make detailed calculations and make mistakes in their predictions, and sometimes this affects their entire lives. In their work titled "Nudge", Thaler and Sunstein claim that individuals cannot control themselves in some situations, cannot make the right choices and cannot control themselves. Therefore, it is necessary to guide people, or in Thaler's words, nudge them, in the decisions they make to save money or improve their financial situation. This actually enables the creation of behavioral development policies. These policies aim to put behavioral economics into practice. Nudge means that individuals should be gently pushed in a positive, certain direction, without taking away their right to choose (Kamilçelebi, 2019:73). The findings listed under the classification of bounded rationality, bounded self-control, and bounded selfishness are the main insights brought together by behavioral economics, drawing on psychology, cognitive science, and other social sciences. The policies of behavioral economics, in other words, their nudges, are a set of interventions based on these insights. Reasons such as the simultaneous existence of many insights explaining a behavior, the fact that the decision environment and context vary depending on the research, and that this complicates the intervention design to be applied for behavior change, make it difficult to reach a consensus on what exactly nudge means. Nudging is any manipulation of choice architecture that aims to change people's behavior in a predictable way without prohibiting any options or significantly changing economic incentives. From this perspective, it is understood that nudges directly target people's decision-making mechanisms, unlike the suggestions of neoclassical economics that only intervene in market failures. Because most of the time, even if market failures are eliminated, undesirable behaviors can remain permanent. The reason why nudges, which have been successfully applied in many economic fields in recent years, are effective is basically the fact that preferences and behaviors occur automatically, often without thinking about them, as a result of the mind using System 1 to save time and energy, as mentioned before. This situation often leads to "errors" that are far from optimal. In other words, nudges are successful because they are designed to take into account that behavior occurs as a result of the interaction of two systems, but mostly with System 1. In order to further concretize the approach used in nudges, it is necessary to examine established policies. Established policies are that the individual acts solely through System 2; It is done with the acceptance that he always acts rationally and optimally and makes the best decision for himself. Therefore, the approach here is as follows: If individuals cannot make the best

decision for themselves, either their knowledge on that subject is lacking, there are externalities, or the incentives/disincentives are not sufficient, and therefore appropriate policies should be developed Established policies in this direction are shaped on the basis of information, laws, taxes and subsidies: Interventions for information purposes: The reason why people cannot make the best decision or show the best behavior for themselves may be due to incomplete information. Individuals acting with incomplete information cannot perform benefit-cost analyzes completely. Therefore, conveying the necessary information to individuals through brochure distribution, public service announcements or education enables them to make better decisions regarding their health. Taxes and subsidies: By changing relative prices with taxes or subsidies, the desired behavioral change in individuals is encouraged. Laws: Restricting access or banning certain products whose consumption is considered harmful to health ensures that individuals stay away from those products. These policies intervene in behavior indirectly and include everyone. Nudges, on the other hand, directly target behavioral change and give people freedom of choice. Of course, this does not mean that these policies are not necessary, especially on a sensitive issue such as health. Nudges should therefore be considered complementary policies. For example, behavioral economics interventions are often designed on an informative basis, but they do this not only by presenting information but by making it more persuasive (Serim and Küçükşenel, 2020:539-540).

Mental Accounting

Mental accounting is a system that everyone from large companies to households has. This accounting system can cause people to violate basic economic principles (Kırmızıaltın, 2021:61). Mental accounting is another behavioral economics topic where people are influenced when making decisions. They try to make sense of individuals' tendency to make decisions according to different classifications they create in their minds. Although a decision taken may seem logical, rational, that is, economically rational, to people, in reality, deceptive situations may be encountered due to the different classifications of decisions created in the human mind. Mental accounting also assumes that people make rational, logical decisions. However, affective, cognitive and social prejudices that prevent the decision taken from being rational can cause individuals to behave irrationally. In this sense, it tries to investigate the changes in individuals' decision-making processes within a psychological system. Mental accounting takes on the task of limiting the limits of the classification created in the human mind, a process that ensures the realization of an idea and the monitoring of the plan to ensure its realization (Arman Zengi, 2022:19-20)

Heuristics and Biases

People use some heuristics, whether consciously or unconsciously, to make their daily lives easier. These heuristics can be simple operations such as saying that the weather will be clear the next day on a starry night, estimating an altitude, or distinguishing between uniformed and non-uniformed people in a store to understand who is an employee and who is a customer. However, people use methods like this in all their important or unimportant decisions. Although these simplification methods work most of the time in life, they can also lead to serious errors (Neyse, 2011:29-30).

People use a number of heuristics, consciously or sometimes unconsciously, to make their daily lives easier. These heuristics consist of simple operations such as saying that the weather will be clear the next day on a starry night, estimating an altitude, or distinguishing between uniformed and non-uniformed people in a store and understanding who is an employee and who is a customer. Although these simplification methods seem to make human life easier, they can also lead to serious errors. For example, when a person is asked the estimated distance of an object, the person will give an answer based on how clearly he sees it based on his observations. However, there is a serious omission in this estimate. In his response, the observer will make a prediction by neglecting the humidity of the air. As it is known, the weather condition will also be the determinant of the answer as visibility will shorten and clarity will decrease in humid weather (Küçüksucu, Konya and Karaçor:2017:276).

Expected Utility Theory

When making decisions, individuals have to evaluate possible options under uncertain conditions. Classical decision theory models how people make choices when faced with a variety of potential actions. According to classical decision theory, rational decision makers make an optimum choice by evaluating all possible outcomes and calculating the highest possible expected benefit and have consistent preferences even in complex situations. Unfortunately, uncertainty makes financial decision making very difficult. It is often difficult to assess the likelihood of outcomes, and people may not even be aware of all possible outcomes (Aytimur et al., 2020:69).

The concept of expected benefit is defined as "the result obtained by multiplying the possible benefit expected to be obtained as a result of decisions made under uncertainty by the probability of the event occurring." According to expected utility theory, the rational decision-making process has 6 characteristics.

These can be listed as follows:
1.Determination of alternatives: If the alternative options are not equal, the options should be ranked according to their importance.
2.Dominance: Individuals must choose the most dominant among the options.
3.Cancellation: When the risks taken by decision makers during the decision are equal, the results should not be taken into consideration when evaluating the alternatives, and the common points between the alternatives should not be included in the evaluation when making the decision.
4. Transitivity: All preferences are transitive. For example; If a person prefers X to Y and Y to Z, he should also prefer X to Z.
5. Continuity: In any game, if the option with the highest return has a high probability of winning, this option should be preferred to an outcome with a certain but moderate return.
6. Invariance: The way alternatives are presented should not have an impact on individuals' preferences.

Von Neuman and Morgenstern argued that if the specified features are not complied with, the benefit to be obtained as a result of the decisions made will not reach the maximum level and therefore cannot be rational. Expected utility theory is a theory put forward to create the decision mechanism under uncertainty. Thanks to the ease of application of the theory, decision making under uncertainty has become easier. However, the assumptions of expected utility theory have been criticized because they do not correspond to reality (İskender, 2019:33-34).

Prospect Theory

We make many decisions every day to survive, and the outcome of most of the decisions we make is uncertain and risky. We make low-risk decisions more easily, but we make high-risk decisions more difficult. By the way, what is meant by risk is uncertainty. When we have difficulty making decisions under risk, we even become depressed. Prospect theory is the most consistent theory that explains how an individual makes decisions under risk. This theory approaches the phenomenon from the basis of why we cannot make the right decision through our cognitive biases (www.mehmetsaruhan.com).

Mainstream economic theory focuses on the assumption that individuals act within the framework of "rationality" and are directed to their own interests in their behavior. However, it has been stated in many studies conducted by behavioral economists that in real life, individuals deviate from rationality when making decisions and do not always choose the optimum option. "Prospect theory" has been put forward as an alternative theory in behavioral economics instead of the "rational choice theory" or "expected utility theory" of mainstream economics. Prospect theory explains individuals' preferences through three basic principles. The first of these is that individuals evaluate gains or losses relative to the reference point when choosing between alternatives. The second is the assumption that the principle of diminishing sensitivity to changes in wealth is valid. To give an example, the 200 TL that an individual will acquire when he has 200 TL and the additional 200 TL he will acquire when he has 1000 TL will be evaluated differently. Because the individual will perceive the first change as a greater gain compared to the reference point and the first change will make him happier. However, although 200 TL is always 200 TL numerically, its value is not always the same for the individual. As wealth grows, sensitivity to additional earnings appears to decrease. The third principle is risk aversion. Accordingly, individuals are more sensitive to losses than gains. While they are risk averse when it comes to gains, they are more prone to taking risks when it comes to losses. Prospect theory is based on the assumption that decision-making under risk occurs on the axis of the meaning attributed to losses and gains, rather than the consequences of individuals' decisions. With this feature, the theory actually forms the basis of the discipline of Behavioral economics, which examines how people make decisions between different alternatives under risk. In this context, although behavioral economics and prospect theory do not completely reject rationality, they reveal that due to biological and psychological factors, some cognitive shortcuts and biases can make it difficult to act rationally and make decisions, and deviations from rationality may occur in real life. (Güler, 2020:47-50).

Framing Effect

Framing effects are defined as differences between perceived decision problems based on decision makers' opinions. When expressing a decision problem, the situational conditions, probabilities and plot of that problem affect the way that problem is expressed (Duman, 2020:15). Examples of this definition include the way a particular type of information is presented, the special labels used to describe choice options, and the special language used to describe the decision situation. It is possible to express the same decision situation or present the same decision situation using different frameworks. While standard economic theory argues that frames, that is, the way a particular information or alternative is presented or the language or labeling used, are not important for the decisions made, behavioral economists argue that framing is necessary for behavior. People use framing to evaluate their options. So framing is a very powerful policy tool, especially considering that people are loss averse. The natural consequence of this situation is the possibility of influencing people's behavior by changing the reference points of their choices, rather than perceiving them as gain or loss as a result of the choices they

make. For example, when looking for a job and considering a suitable salary, the reference point can be given by the salary received at the last job. Accepting a job that offers less pay than the previous job may be difficult to accept because it may be perceived as a loss. Framing should not be based on a reference point or loss or gain. Simple labeling can frame situations in different ways and thus influence people's behavior. The way money is labeled also affects the impact of spending. In a policy context, the labeling of government transfers affects how the money is spent; money can be used for anything. For example, children's clothing is 10 times more likely to be purchased if income is labeled as "child benefit" than other sources of income. It is believed that labeling the income as a 'child benefit' creates a moral obligation to spend the money on their children. These results show that in case of any policy intervention, special attention should be paid to labels. For example, the labeling of unemployment benefits can influence behavior. In the United States, unemployment insurance is called unemployment benefit, which reinforces a recipient's status as an unemployed person (Şimşek, 2018:29)

IV. Conclusion

The focus of behavioral economics is human behavior. Behavioral economics focuses on the factors that affect human decision-making processes. Homo-economicus is an emotionless being who tries to maximize his own benefit. Many researchers have criticized this situation and argued that economics cannot be separated from human psychology. The point emphasized by behavioral economics is that the decisions made by the individual under all circumstances cannot be considered rational decisions. In decision-making situations under uncertainty, individuals may make irrational decisions or, in other words, may not make decisions as stated in expected utility theory. Although the standard mainstream economic theory is still enlightening in our understanding of the socio-economic path today, it reduces the explanatory power of the policies that policy makers implement by taking the mainstream theory as a reference, based on the concepts of benefit maximization and rationality. Factors such as psychology and sociology are the leading factors in this decrease. For this reason, behavioral approaches in economics have a very important place in order to increase the explanatory power. Because individuals cannot always choose the best decision. There are many factors that affect the decision-making process beyond the individual's control, such as limited memory, limited time, justice, morality, and guilt. At the same time, individuals also prefer shortcuts when making decisions. They can be influenced by other people's experiences, and they can even continue to make that decision even though they know that it is wrong and does not benefit them. Behavioral economics fills the gap experienced precisely because neo-classical economics accepts the individual as rational.

References

[1]. Arman Zengi Cennet (2022). Davranışsal İktisat Bağlamında, Demografik Farklılıkların Tüketici Davranışlarına Etkisi:Aydın İlinde Bir Uygulama, Aydın Adnan Menderes Üniversitesi Sosyal Bilimler Enstitüsü, Doktora Tezi, Aydın.

[2]. Aytimur Gizem V.D. (2020). Davranışsal Ekonomi Perspektifinden İşletme Yönetimi, Ankara Üniversitesi Sosyal Bilimler Dergisi | 11(1) | 2020 | 66 – 83, Ankara.

[3]. Çekiç Sinem (2016). Davranışsal İktisat Bağlamında Cinsiyet Farkının Tüketici Tercihlerine Etkisi: Bartın Örneği, Bartın Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi, Bartın.

[4]. Çetin Emine (2023). İktisadi Davranışların Psikolojik Temelleri: Davranışsal İktisat, Premium E-Journal Of Social Sciences, 7 (29 Ekim 100. Yıl Özel Sayısı), Pp: 156-161

[5]. Duman Sumeyra (2020). Davranışsal Ekonomi Yaklaşımları Karar Verme Tarzlarıyla Bir İnceleme, Kriter Yayınevi, 2. Baskı, 2020, İstanbul.

[6]. Düz Aslı Derya (2021). Davranışsal İktisat Bağlamında Bedavacılık Sorunu, Bilecik Şeyh Edebali Üniversitesi Sosyal Bilimler Enstitüsü, Yüsek Lisans Tezi, Bilecik.

[7]. Güler Sevilay (2020). Örgüt Yanlısı Yaklaşımların Davranışsal İktisat Varsayımları Açısından İncelenmesi Ve Bir Ölçek Geliştirme Çalışması, Sakarya Üniversitesi Sosyal Bilimler Enstitüsü, Doktora Tezi, Sakarya.

[8]. İskender Duygu (2019). Davranışsal İktisat Ve Deneysel İktisattan Sonra Nöroiktisat, Marmara Üniversitesi, Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi.

[9]. Kamilçelebi Hatemi (2016). Davranışsal İktisat Ve Davranışsal İktisadın Uygulamaları, Nobel Akademik Yayıncılık Eğitim Danışmanlık Tic. Ltd. Şti., Yayın No:1525, Eylül 2016, Ankara.

[10]. Kamilçelebi Hatemi (2019). Davranışsal İktisat, First Edition, December 2019 Ijopec Publication No: 2019/20, London, United Kingdom.

[11]. Kırmızıaltın Eren (2021). Davranışsal İktisat Kısa Bir Giriş:Kurucu Düşünürler, Heretik Yayınları:95 1.Baskı Eylül 2021, Ankara.

[12]. Küçüksucu Mücahide, Konya Sevilay And Karaçor Zeynep (2017). Davranışsal İktisat Ekseninde İktisatta Psikolojik Arka Plan, 2nd International Congress On Political, Economic And Social Studies (Icpess), 19-22 May 2017, Pp.253-283.

[13]. Neyse Levent (2011). Davranışsal İktisat Çerçevesinde Güven Kavramı, İstanbul Üniversitesi,Sosyal Billimler Enstitüsü, Yüksek Lisans Tezi, 2011, İstanbul.

[14]. Serim Havva And Küçükşenel Serkan (2020). Davranışsal İktisat Ve Dürtme: Sağlık Politikaları Özelinde Bir İnceleme, Hacettepe Üniversitesi İktisadi Ve İdari Bilimler Fakültesi Dergisi Cilt 38, Sayı 3, 2020 S. 531-559, Ankara.

[15]. Solak Tuğba (2019). Davranışsal İktisat Ve Bireylerin Karar Verme Sürecinde Ortaya Çıkan Gizli Tuzaklar Üzerine Bir İnceleme, Aydın Adnan Menderes Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi, Aydın.

[16]. Şimşek Hamza (2018). Davranışsal İktisadın Politika Yapımına Etkisi, First Edition, November 2018 Ijopec Publication No: 2018/38, London, United Kingdom.

[17]. Ünal Rukiye (2019). Davranışsal İktisat Açısından Kuşaklar Arası Tüketici Tercihlerininin İncelenmesi: Bartın Üniversitesi Örneği, Bartın Üniversitesi Sosyal Bilimler Enstitüsü, Yüksek Lisans Tezi, Bartın.

[18]. Yalçın Yalçıner (2012). Davranışsal İktisat Yaklaşımıyla Rekabetçi Piyasa Analizi, Baskı, Aralık 2012 Rekabet Kurumu-Ankara.