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The Contribution of Behavioral Economics in Explaining the Decisional Process

Andreea Gradinaru[a,*]

[a]*Faculty of Economics and Business Administration / Department of Economics, Alexandru Ioan Cuza University, Iasi, Romania*

Abstract

The purpose of this paper focuses on highlighting the contribution of behavioral economics in explaining the decision-making process. For a proper study of the attitudes and mechanisms of the decision-making process, one must take into consideration subjective and psychological aspects of behavioural economics, that move the rational behaviour from the traditional terms presented in the classical and neoclassical literature in new coordinates. It is expected that this approach of the decision making process to hinder economic development models, but taking into account all factors involved in how individuals make decisions, it will allow a better explanation of the economic problems and finding suitable solutions.

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Keywords: cognitive heuristics, behavioral economics, prospect theory, decision making.

1. Introduction

The central element of the research is highlighted in the title, the study represents an attempt to capture the theoretical elements that underlie decision-making in the new branch of science, behavioral economics, which has been developed mainly since the ‘50s of the last century.

The subject is an intellectual challenge that sparks the curiosity and desire for research by analyzing literature, reports and studies prepared by the competent institutions.

Behavioral economics has become a research direction in economic science due to the paradoxes of rational choice theory that it has generated. Moreover, it is a branch of economics that studies the way in which people take concrete decisions on a daily basis, putting into question the traditional economy postulates. It’s study is interdisciplinary,

* Corresponding author.
E-mail address: gavrilutaandreea@yahoo.com (A. Gradinaru)

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predominated by psychology, but including elements of philosophy, epistemology, sociology, economics, anthropology and even mathematics or econometrics.

Analysis is necessary, in particular because of the importance of increasingly higher on that behavioral economics is a study currently being animated by the advance of technological progress of the last few decades it has printed. The findings, mainly in the field of neuroscience, made possible a better understanding of the human brain and of the fundamentals on which it builds decision-making. Moreover, when defining the economic science has come far, marked mainly by triggering the biggest crisis since the Great Depression of ' 29-' 33 of the twentieth century, is a reason for which I considered a real importance of this study.

We already have six years from the onset of the deepest recession since 1929, and most economies are still fragile. Unfortunately, with all the efforts, it seems that standard economic theory through the two major directions: interventionism and liberalism, failed to provide sustainable solutions for the rehabilitation of the economy and that's because both the attitude of liberals and interventionists is wrong in terms of the individual and the way he makes decisions.

Both liberalism and interventionism economic models are based on some abstract individuals: selfish and perfectly rational on the one hand, and devoid of any trace of selfishness, always ready to sacrifice for the welfare of society on the other hand. In fact, the individual is a real complex person, with actions that are materialized in failures and with incomprehensible behaviors for the economy. The reality is that people don't always take the best decisions, repeating the same mistakes, they don't know how to calculate risks and make business emotionally motivated, ideas which behavioral economics grasps in great detail.

2. Methodology

In this study, the research strategy, by the nature of the addressed matter, was a deductive one, based on theoretical research reflections of the reference field. Deduction was corroborated with induction, recovery statements and theories provided by the literature on economic practice aimed to support the working hypotheses.

The main research methodology was the quality method. This included data collected from the field literature regarding existing theories. Data collection was done by studying a number of documents: books, articles, encyclopedias and so on, which allowed to build a unitary and systemised information network. Among the research techniques used were the techniques of analysis of mediated content and comparative analysis of existing data, empirical studies in the literature.

3. Literature review

The literature presents behavioral economics as a branch of economy which is based on the assumptions of human behavior, which reflects the results of psychological studies and conclusions from other social sciences and biology. It aims to provide fair descriptive hypotheses about cognitive abilities and the emotional responses of individuals in economical decision-making, integrating in analysis both institutions that prescribe organisational rules and norms of social interaction, as well as the context of specific circumstances (Schwartz 2007, p. 4).

Moreover, behavioral economics seeks to explain why people do not always behave selfishly, why they don't always act in the most rational in economic terms or why attribute a higher value to some objects than other objects that have the same value (Frank, 2006, p. 231-256). In this direction, Gary Becker, Nobel Prize winner, although not a follower of behavioral economics, was arguing that "when studying behavior can no longer be explained according to income or prices, the explanation can be found in the change in tastes" (Becker, 1998, p. 139).

Behavioral economists propose to broaden and improve the traditional ideas with decision-making models borrowed from psychology, multidisciplinary approach through which it proposes.

According to standard economic model people are making decisions in the context of a comprehensive, they know their preferences, their choices are always rational. In addition to the standard model predictions come behavioral economics, which take into account all the fluctuations of human rationality that can be limited by emotions, the gregarious spirit, marketing manipulation, or inability of individuals to estimate the different probabilities. According to behavioral economists, people are variously influenced by fear of failure, of remorse and will often give up some benefits, just to avoid a small risk of feeling that they have failed. Then, people are often influenced by external cues.