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MODELS OF IRRATIONAL BEHAVIOUR SHOWN BY ECONOMIC AGENTS: APPROACHES TO REGULATING

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ABSTRACT

The goal of the article is to analyze models of irrational behavior shown by economic agents and approaches to their regulation. To achieve the goal, general and specific methods were used. Results: the paper reveals a reference, standard, and deviant model of individual behavior shown by economic agents when decision-making is determined by a complex of external and internal factors. The key approaches to regulating irrational behavior shown by economic agents are revealed using the key provisions of two concepts: behaviorist and ethological. The reasoned conclusion is that behaviorist tools can be used for simple decision-making with quick feedback and relatively easily identifiable effects. For complex decisions with no feedback and having difficult (or impossible) effect assessment, it is advisable to use cognitive ethology, which includes the tools: choice architecture and institutional design.

Keywords: behavior, economic agents, institutions, behaviorism, ethology, decision-making, economic theory, deliberate choice, institutional design.

INTRODUCTION

In fact, currently, none of the conventional and heterodox theories can fully formalize the fundamentals of particular characteristics of consumer behavior (Haider et al., 2018; Gossady et al., 2020; Vahabzadeh et al., 2020), choice, and decision-making (Yeganeh et al., 2020). In this regard, it is relevant to review the existing approaches to theory concepts, methodology, and practice of managing consumer behavior and decision-making using a multidisciplinary approach. It is based on the integration of key provisions of behavioral economics, a new institutional economic theory, and provisions in the area of neural, social, and psychological sciences.

The importance of reviewing the existing theories and practical concepts of consumer behavior management is created by a wide range of factors. One of the key factors is that the social environment influencing individual decision-making can change a rational choice for an irrational one. In the article, the thesis is revealed through the lens of behavior patterns shown by economic agents and approaches to behavior regulation. This issue was concerned by a rather wide range of scientists, including Auzan (2017), Bloom et al. (1998), Burns and Roszkowska (2018), Chakrabarti et al. (2006), Kahneman (2011), Eibl-Eibesfeldt (2017), Skinner (1988), Taler and Sunstein (2017), Thaler (2018), Veblen (2011). However, due to

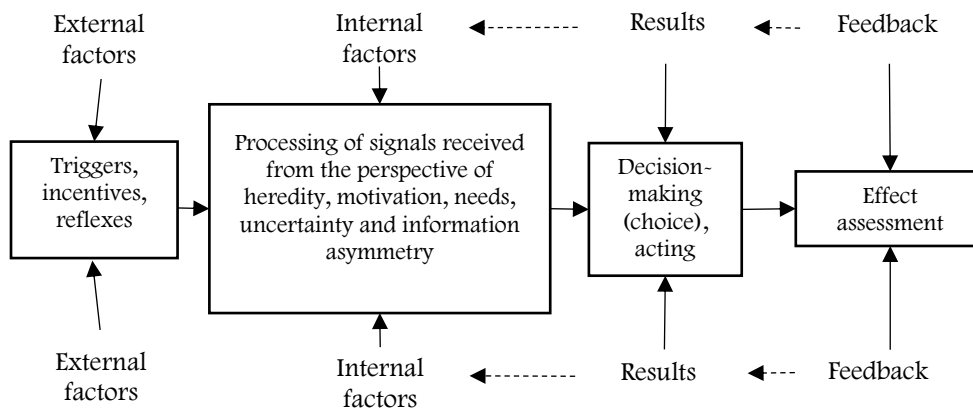
the continuous transformation of the socioeconomic environment in which the economic agent exists, the pattern of their consumer behavior changes as well.

METHODS AND MATERIALS

The methodology of the article involves a complex of general and specific methods. General methods include analytical and synthetic research methods, which made it possible to structure theoretical materials on the issue under consideration. Specific research methods are embodied in an analysis of socio-psychological and meta-economic data characterizing the specifics of each economic entity's behavior pattern defined by the author and approaches to the regulation of these patterns.

RESULTS AND DISCUSSION

Human behavior, peculiarities of his mental activity allowing to make certain decisions, or pushing to decision-making, is a permanent area of scientific interests, from psychology and sociology to economics, including institutional, neuroeconomic, econophysics and other areas of research and development (Auzan, 2017; Bloom et al., 1998; Bowles, 2016; Chakrabarti et al., 2006). At the same time, starting from the classical economic theory emergence till T. Veblen's works were created at the end of the 19th century (Veblen, 2011), human economic behavior has been known to be studied within the framework of a human reference model, currently known as "homo economicus". The reference model for economic agents assumes that the latter make decisions and act to maximize objective benefits (for example, maximum income or profit). Veblen (2011) criticized the reference model, proving that in fact, the institutional environment can force an economic agent to act irrationally. It is manifested in the form of conspicuous consumption, extreme hedonism, etc. In other words, external uncertainty and information asymmetry cause opportunism in the behavior of economic agents, which becomes an integral part of the standard model supplemented by the provision that under conditions of extreme uncertainty, an economic agent will primarily seek to reduce possible risks, while acting almost always irrationally. In other words, the standard model describes and explains the behavior of economic agents in the following context (Figure 1).



**Figure 1. The standard model of economic agents' individual behavior
(Compiled by the author using sources: Henry, 1991; Klyucharev et al., 2011)**

In addition to the standard model, there is a deviant model describing abnormalities in the individual behavior of economic agents. It is in the deviant model that great attention is paid to the influence of institutions (rules and regulations that determine the regularity and economic agents' regularity of the behavior). Developed formal institutions are designed to ensure public order and stability, while convergent or informal institutions must maintain that order.

But there is always room for maneuver to ensure institution evolution. At the same time, formal institutions can be destructive (in totalitarian communities, for instance) or not authoritative. In this case, divergent or informal institutions can replace formal ones, imitate them. As a rule, deviant models are applied here which could be divided into two groups (Burns and Roszkowska, 2018; Camerer, 2003; Luce, 2012):

1. conforming models of behavior shown by economic agents, when the destructive institutional structure of the community is taken for granted, which forms social habits and thinking revealed through behavioral acts that outside the community are objectively perceived as antisocial.
2. nonconforming models of behavior shown by economic agents are opposed to destructive institutional structure; accordingly, this behavior model is considered to be antisocial within the community, while outside the community, it is considered to be prosocial.

Another group of behavioral models should be distinguished, which are formed, as a rule, in a developed and constructive institutional framework - these are protest models of behavior shown by economic agents. In other words, deviant models of behavior shown by economic agents are models that explain the causes and factors of behavioral deviations from the institutional standard. Accordingly, the behavior shown by economic agents requires to be corrected, otherwise the created social stability can be destroyed by the replication of such behavior in society.

In this latter case, scientists who are insufficiently aware of the institutional and new institutional economic theory, as well as with the achievements in neurosciences and behavioral economics, very often discuss the irrational behavior shown by economic agents. But in fact, the issue of the balance of rational and irrational behavior shown by economic agents is such a personal matter that it can be seen in the reference, in the standard, and in the deviant model. To better understand the context of the study, a definition of rational behavior shown by economic agents should be given, which will be common for any of the above-mentioned behavioral models.

Sharing R. Thaler and K. Sunstein's point of view, we can conclude that the rational behavior shown by economic agents is characterized by the objectively evaluated (Taler and Sunstein, 2017; Thaler, 2018):

1. correctness/rejection of spontaneous decisions and actions in favor of considered and weighed choice.
2. utility (the decision made and follow-up actions maximize long-term subjective usefulness and at the same time are socially just: these do not restrict other people in their rights and needs; do not destroy the environment; do not limit resources and prospects for future generations).



Obviously, the objectively evaluated utility of rational behavior, shown by economic agents, correlates with the concept of social justice proposed by Rawls (Rawls, 1999), that is, rational individual behavior shown by economic agents is environmentally, ethically and socially responsible decision-making, primarily forward-looking but relevant to meet current challenges (routine problems). Such behaviors can be rapidly replicated in institutionalized communities through matting signals humans. On the contrary, in institutionally underdeveloped communities, where informal institutions are more powerful than formal ones, such behavior will be seen as irrational. Therefore, to clarify the scientific position on the understanding of behavior rationality shown by economic agents, a neurological (biological and physiological) concept shall be applied.

In the standard model, a decision was shown to be made by a person after information received from the outside is processed. Processing is carried out in the context of heredity, motivation, needs, uncertainty assessment, and asymmetry of information received (which is quite often unconscionable). This whole mental process is realized either through a quick or slow decision-making system (Figure 2).

Accordingly, a quick system generates irrational behavior, while a slow system generates a rational one. Since both systems were involved in the decision-making process, neuroprognosis was applied, which is not implemented within a quick system. Thus, at this phase of the research, we conclude that irrational and rational behavior shown by economic agents is, firstly, contextual for the standard and deviant model, and, secondly, is the result of the neuropsychosocial decision-making function. Accordingly, there is a question of the need to regulate irrational behavior, which is especially relevant to institutional communities.

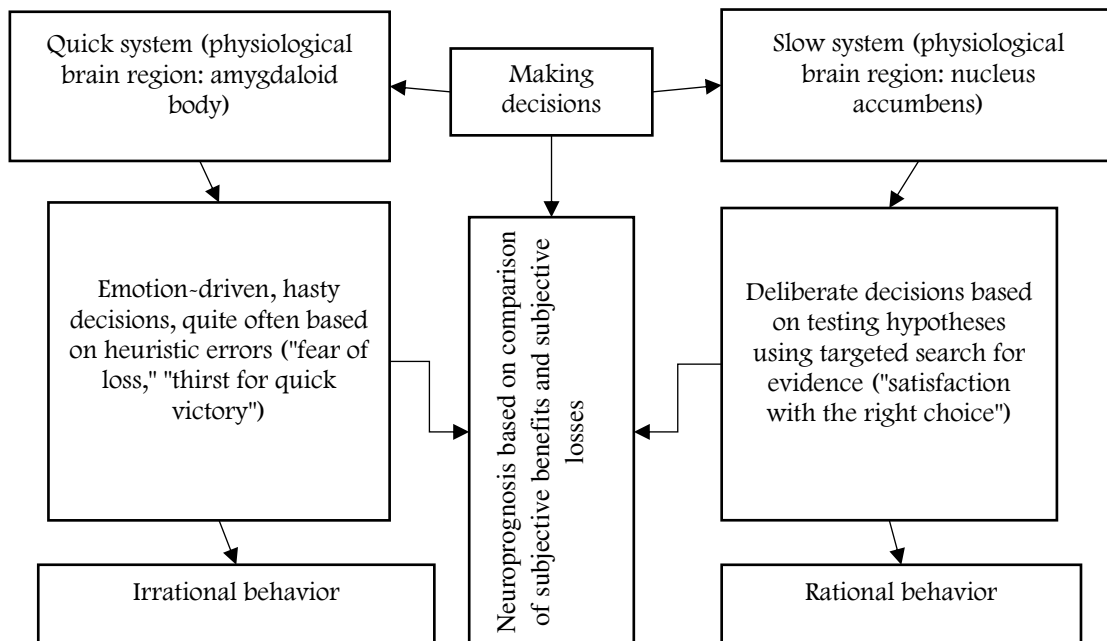


Figure 2. Neuropsychological circuit of making decisions by economic agents, determining their follow-up individual behavior (Compiled by the author using sources: Kahneman, 2011; Klyucharev et al., 2011; Taler and Sunstein, 2017)

It also explains why various scientific and practical approaches to economic agents' behavior regulation developed in economically and socially developed countries where highly prioritized personal and civil liberties do not allow direct interference with individual social or economic choices. In the late XIX - early XX century, two theoretical concepts began to develop almost simultaneously, which were subsequently introduced in regulating economic agents:

1. behaviorism maintained the position that behavior is homogeneous, therefore, the frequency of its occurrence can be decreased, increased or excluded if required using positive or negative encouragement (operant learning) (Skinner, 1988);
2. ethology (cognitive ethology in particular) maintained the position that behavior is diverse, and is determined by internal (heredity, motivation, needs) and external (triggers, incentives, uncertainty, information asymmetry) context (Eibl-Eibesfeldt, 2017).

The cognitive-ethological concept turned out to be more reliable and described human behavior both within the standard and within the deviant model. However, the merits of behaviorists should not be underestimated, since largely due to their research, impulsive (spontaneous) economic behavior became well-understood. It has led to the emergence and development of a new scientific area in economics - marketing, which has long used the concept of operant learning, skillfully manipulating consumers through a quick decision-making system, heightening fear of need, and increasing interest in consuming a particular product.

In addition, through a quick decision-making system, various actors impact the behavior of an economic agent: cult representatives, developers of deliberately fraudulent schemes, representatives of the legitimate and illegitimate entertainment industry, etc. But it is erroneous to believe that these factors cannot affect decision-making and create irrational behavioral models through a slow system. Studies conducted during the past ten years have repeatedly confirmed the correlation between the intelligence level and the rational behavior pattern. It means that a slow decision-making system needs continuous training, in this case, specific tools developed within the framework of the behaviorist concept can be used, for example, to:

1. make opportunistic (routine) decisions for events effects of which are predictable, identifiable.
2. make opportunistic decisions for events when the mobilization of group prosocial actions is required.

In contrast, more sophisticated tools (choice architecture, institutional design) are advisable to be built on a cognitive-ethological concept that involves both decision-making systems to perform neurological prognosis of the effects caused by behavioral acts in those events when effects are hard to be currently identified reliably, but the future subjective expected utility can be justified for each economic agent individually. These tools are implemented through social learning, reengineering of cultural norms, formal and informal institutions, rational behavior commodification, etc.

CONCLUSIONS

To summarize and sum up the article, the following should be noted:



- Firstly, from the point of view of institutionalized communities, rational behavior of economic agents is always pro-social, consistent with Rawls's concept of social justice;
- secondly, rational behavior of economic agents falls within the scope of the traditional model but assumes that decision-making is carried out through neuro-prognosis, which applies a fast (emotional) and slow (conscious) decision-making neuro-system;
- thirdly, the main behaviorism achievement is an operant learning model through the encouragement of behavior desired (in the present case - rational). The behavioral concept is applicable to regulating behavior or making opportunistic decisions with reliably identifiable effects;
- fourthly, the cognitive-ethological concept should be used in more sophisticated tools for regulating irrational behavior (choice architecture, institutional design) in making long-term decisions, the effects of which are probabilistic but not reliably identifiable.

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