Olena Pylypenko
A. I. Ignatyuk, Doctor of Economics, Prof., research supervisor
N. M. Semenihina, language adviser
Taras Shevchenko National University of Kyiv, Ukraine

Behavioral Economics as a Modern Direction of Economic Research

Richard H. Thaler, the American scientist, became the Nobel Prize laureate for Economics in 2017 for his contribution to the study of behavioral economics. In his writings, the scholar analyzed the influence of such factors as limited rationality, social advantages and the lack of self-control from individual participants in a market economy on individual decisions and general outcomes of market functioning. It should be noted that R. H. Thaler is not the first Nobel Prize winner in this field of Economics. In 2002 it was received by Americans D. Kaneman and V. Smith. Actually Daniel Kaneman is considered to be the founder of behavioral economics. He, along with his colleague Amos Tverski, laid the foundations for understanding universal mistakes arising from stereotypes and biases, and developed a theory of perspectives (1979).

The main subject of the theory of perspectives research is the influence of psychology on making economic decisions and the correspondence of such psychological principles as dependence on comparison (there is a "line of comparison" in human consciousness), avoidance of losses (we are more sensitive to losses than to achievements of the same size), nonlinear weighing of probability (usually a person overestimates a small one and underestimates a high probability).

The theory of prospects has become one of the areas of the general behavioral economics - the area of Economics, which studies the influence of psychological, social and emotional factors on the decisions of people in various economic situations. It studies the process of making market decisions as well as an analysis of the mechanisms of public choice.

The key principles of the study of behavioral economics are the following methodological techniques: heuristics (is based on the fact that people often build decisions on a rough estimate, rather than rigid logic); a frame (a set of anecdotal evidence and stereotypes that comprise mental emotional filters); market inefficiencies (wrong pricing and inappropriate decision-making).

From a practical point of view, behavioral economics explicitly takes the psychological features of human perception, judgment and action into account. We make irrational decisions, but they are predictable. And the knowledge of the comparison mechanism used by our brain helps to predict them. Graphic confirmation of the relativity of our perception is shown in Fig. 1. The black circles are the same size, but the one that is surrounded by big ones seems smaller than the one that is surrounded by small circles.

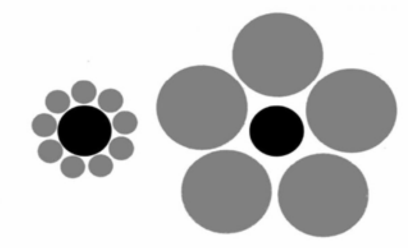

Fig. 1 Relation of human perception of reality.

How does the behavioral economics work in our lives?

Let's consider three situations with which, apparently, everyone encountered, and analyze the most probable actions on its part.

1. The effect of possession. You are a long-time fan of the American rock band Rolling Stones. The group arrives in Kiev and you have a ticket for 1000 UAH, for which you would not hesitate to pay even 3000 UAH. At the same time, you read on the forum that tickets are no longer available and some people are ready to buy the ticket for 10 thousand UAH.

Being a prominent fan of a group, will you sell it or not?

From the point of view of classical economic theory, it would be rational to sell this ticket and earn revenue. But the behavioral economy gives the opposite conclusion. If you are the same as most viewers of full-length concerts, then you will not sell this ticket for nothing.

2. An imaginary account. You need to buy a case for a mobile phone for 200 UAH. Exactly the same can be bought in the store in 10 minutes on foot for 150 UAH. And now imagine that you need to buy a more expensive case for 1000 UAH and the seller tells you about identical conditions: a store in 10 minutes and a discount of 50 UAH.

Will you agree? Most people are ready to go or go to another store for a discount for a cheaper cover, but refuses for the same discount for a more expensive thing.

3. Failure to accept losses. You are offered a game of throwing a coin. If you run out of money, you lose $100. If you fall an eagle, you win $150.

Will you agree to participate? To make a decision, you must weigh the psychological profit from receiving $150 and the psychological cost of $100 loss. What do you feel? Although the expected value of the game is positive, since you can win more than lose, you will most likely refuse – like most people.

Thus, the behavioral economy is a direction of economic theory, which is very closely related to psychology, since it deals with the study of the influence of psychological factors on the decision of people in various economic situations. This science studies the impact of psychological, social, cognitive, and emotional factors on the economic decisions of individuals and institutions and the consequences of such decisions for market prices, profits, and resource allocation. Much attention is paid to situations where people behave differently than the classical economic theory predicts with its assumption of rationality and selfishness.