

# Reviewing Implications of ‘Behavioural Economics’ on Our Future Life

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## **Abstract**

This paper reviews and extends our understanding of the development of behavioural economics (BE) on our life today and its possible implications in the future. The review evaluates how the behavioural theories would influence our future and would create new thinking, especially with the increasing of the repeated financial crisis. The work of John Tomer (2017) on the introduction to behavioural economics is used here to follow the essential BE theories, perspectives, trends and developments and to exploit their implications on our future life.

Key areas of behavioural economics, as the bounded rationality, psychological economics, behavioural finance, nudging and behavioural macroeconomics are discussed from two perspectives, what are their contributions today and where it might go in the future. Recommendation for further research is suggested about how to optimise BE for future demand.

**Keywords:** Behavioural economics, Implications of Behavioural Economics in the Future, Behavioural Lab, Inspiration Lab, Psychology economy

## **1. Introduction**

With the development of human psychology, many scientists and especially economists started to believe that presuming that people may depart from rationality could create new measurable theories in the future. However, due to human complexity we still find debates from the classical economists that more theories are needed to prove the generalisation of the possibility of human irrationality.

If we take for example the study of Heimer et al. (2015) of how young people save too little, and the elderly spend too little, the explanation that old people want to pass money to their children, and that young people don't realize how long they're going to live and spend like there's no tomorrow, is still a puzzle today and if not solved could become more complex in the future. If BE scientist did this study they would not try to explain the phenomena, without first setting up first intervention labs to change the seen outcome. This would mean a future where youth knows more about the essentials of savings, whereas elderly would enjoy their savings and the rest of their time with high quality of life (Buheji, 2018d).

## **2. Research Framework**

This paper is built on the possible interactions of BE and its type of influence in the future. The fundamental issue here is built on how to optimise BE practices to help address future needs. Therefore, each subject of BE in the literature review is examined from two perspectives:

- a- What is the BE position today?
- b- Where BE might go in the future?

Both (a) and (b) should help us to understand what are the implications of BE on our socio-economies in the future.

## **3. Literature Review**

### *3.1 Pre-Behavioural Economics*

Economics is a social science. It is a science that seeks the truths about production, distribution, consumption, wealth accumulation and related tasks through abstraction of observations and analysis.

Neoclassical economics (NE) is built on the assumption that humans are rational, with the proposition that economic behaviour can be described by the mathematical model without the need for inter-disciplinary interference or explanations.

NE and utilitarianism found to be too narrow and does not reflect human needs and behaviour. Therefore, there was more increasing demand for the cognitive state.

### *3.2 Behavioural Macroeconomics*

Akerlof (2001) mentioned six phenomena or assumptions that the behavioural macroeconomics would try to change. The first assumption in the New Classical model is

that the unemployed worker can easily obtain a job by offering to work for just a smidgeon less than the market-clearing salary or wage. The other assumption which Akerlof tried to refute the impact of monetary policy on output and employment.

Akerlof saw that if unemployment above the natural rate, inflation continually decelerates. Besides, Akerlof seen that assuming the prevalence of undersaving for retirement is not totally accurate as today there are many forced saving programs.

Akerlof seen stock prices does not necessarily reflect the value of future income streams and not necessarily we have a self-destructive underclass and that neoclassical theory cannot account for different causalities of extreme poverty.

Akerlof emphasised the inter-disciplinary approach for Behavioural Macroeconomics using reciprocity, fairness, identity, money illusion, loss aversion, herding and procrastination as techniques that ease transformation from NE (Akerlof, 2001).

Hence, one could synthesis that behavioural macroeconomics (BM) targets to improve how people react to the economic cycle. For example, BM would be concerned about how people prepare, or react to big recessions, and what is its impact on their own lifetimes. BM scientists can help to calibrate the unjustified optimism to optimise the speed of recovery in the future. The outcome expected from BM would be how to build more resilience economy practices that would absorb any repeated economic and socio-economic spikes in the future, so that not to repeat what countries as Greece and Venezuela experienced (Tomer, 2017; Akerlof, 2001).

### *3.3 History of Behavioural Economics*

Behavioural Economics (BE) started to emerge since the 1950s as a concern of the way NE is developing, i.e. far away from human behavioural explanations and multi-disciplinary interactions. The idea behind BE is to be open up to the new dynamics of life and to adopt new methodologies in economics that help understand the outcome of human decisions.

The history of economics before BE used to be divided into classical and neoclassical. Neoclassical also can be divided into two periods early and post-world war II (Tomer, 2017).

With the development of Nudge, one could see that BE could spread more in communities and would come to be universal phenomena. For example, it became normal today that people or the consumers, or the community being nudged to choose low-calorie meal, or to save money each month, or to donate their blood or organs. This surely is going to have positive effect on architecting our decisions. However, all the advanced BE tools are optimised and used more in neuro-marketing, more than any discipline. It is increasing our consumerism diseases (Thaler & Sunstien, 2008).

In a nutshell, the future of BE tools would depend on its simplicity and its low implementation cost, besides its unique outcome in behavioural change (Tomer, 2017).

### *3.4 Influence of BE on Scientific Research and Knowledge Community*

Over the years and specially since the 1970's more economists started to utilise the methods

that were developed by the behavioural economists, and blend it with the experimental economic approaches. Buheji (2018c) emphasis that this helped to bring new economies as social, sharing, collaborative, knowledge, innovation, creative, inspiration, resilience and youth economy (Buheji, 2019).

The empirical pragmatic studies published by BE scientists led many scientists from different disciplines to rethink about the same changes required for their own field, especially those been following the same approaches for long years. BE built a number of related meanings.

BE shown that there are many assumptions that need to be reviewed or dealt with carefully, as presuming that people act from self-interest or that people are always rational in their decisions. Actually, now rigid studies show that Adam Smith himself was highly interested in humans' psychology and what makes them happy, but later economists became busy with theories and formulas (Angner & Loewenstein, 2007).

### *3.5 BE and the Future of Welfare*

BE is expected to enhance people, communities and governments economic and socio-economic literacy and thus to help them take charge of their challenging or turbulent environment (Buheji, 2018a).

In the future, BE scientists are expected to take their labs experiments and analysis steps further by measuring the impact of the communities' welfare and not only individuals or government policies. Already recently we started to find studies that focus on energy conservations, improving charity donation and other positive deeds through managing their psychological cost. BE as per Buheji (2018b) need to focus more on social psychology that would lead to more successful models that would lead to community development and resilience in socio-economic capacity (Buheji, 2018 b, c).

### *3.6 BE and Future Public Policies*

If BE continues to develop it would evolve it would help public policies to target complex and chronic issues, and this would influence both the mindset of the public authorities official and the beneficiary citizens alike. With the development of modern technology such as artificial intelligence Artificial Intelligence (AI) is expected to offer an entirely new possibility of how BE could be delivered across different communities. It would be feasible, for example, to personalise the solutions and options of architecting decisions according to specific group of citizens or type of individuals (Buheji, 2018c).

### *3.7 BE and Future Consumers Decisions*

With the development of neuro-marketing and BE, the retailers could use the information of the consumers and feed it to the algorithms to create specific strategic, sales planning, marketing and distribution decision. If this consumer information used for creating welfare effects.

BE scientists made an analogy to Darwin's model and its differential effects on the routine of behavioural patterns and the life cycle of the selected industry. Nelson and Winter (1985) use

inter-disciplinary approaches and organisational that triggers cognitive psychology and thus it has more potential to influence our life in our future. One of implications of such theory is that it helps to the ease the transformation of many industries and their resilience in uncertain times.

The evolutionary theory could also help people to adapt faster to rhythms of technological changes which can enhance the organisation and the communities economic and socio-economic propositions (Buheji, 2018b).

Emotions found to influence economic decision making. Our fear, anger, hunger, thirst and pain all found to be related to how engage in specific economic behaviour. Our consumption is influenced by our emotions (Tomer, 2017).

### *3.8 The Demands for BE Labs in Future*

Thanks to BE and neuroscience development; there are today more demands for lab experiments, such as behavioural labs, or inspiration labs than ever before. Now more scientists and researchers realise how effective people economically behave in the real world and where such labs would bring in a type of economic data that can be tested (Buheji, 2019).

In order to foresight BE implications in the future we need to measure, for example, in labs how the behaviour of the consumers or the beneficiaries would deviate from full rationality and how to reduce the effect of their psychological biases.

In summary, lab experiments have become a substantive field of inquiry which led to more spread of the BE in different fields and scopes.

### *3.9 Bounded Rationality*

BE is closely associated with the work of Herbet Simon (1992). Simon seen on that BE is a collection of inter-disciplinary social sciences made mainly from economics, psychology, management, sociology, besides philosophy which all help to understand the human decision making.

Bounded rationality can be the right partner for managing the speed of life in the future, as more rationality in decision-making needs to be intelligent and sensible. This can be achieved through choosing a reasoned, and purposeful manners. This means that future decision-makers would have good alternatives and choices of outcomes.

### *3.10 Role of Psychological Economy in Future*

Psychological Economy (PE), which was proposed by Daniel Kahneman (2011), Nobel Prize Winner, and Amos Tversky in (1982). PE is about the application of cognitive psychology on decision making, i.e. excluding moods and feelings. PE helped and could help more in modelling of economics and cognitive science.

The need for well-defined preferences that maximise the expected utility and create a discount for future wellbeing would still continue to be the primary differentiation for PE. PE help to realise the type of human judgements biases. PE focus on improving the availability

of specific instances and how it can be brought to mind. This should improve the BE related to risks, resilience, co-existence, persistence and inspiration (Kahnman et al., 1982).

Anchoring, a type of detection for bias judgement and adjustments is another contribution of PE towards BE. With anchoring, the BE's can plan to correct the behaviour of valuing or decisions that are made on estimations (Kahnman et al., 1982). This is very important as people who are influenced by arbitrary anchors are increasing due to development of technology and social media. Also, such anchoring can be used for studying the flow of decision making with a particular type of group, i.e. particular age, discipline, etc. PE also focus on representativeness that reflects the probabilistic that a particular type would take a certain decision or go in certain economic direction (Kahnman et al., 1982).

By understanding PE, we could understand more how to deal with two types of thinking: automatic thinking, called system 1, and reflective thinking, called system 2. Kahneman (2011) believes that thinking as System 1 is intuitive and instinctive, i.e. it needs little thinking efforts. While system 2 need deliberate thinking, orderly attention and self-control. This type of thinking would be in more demand in the future due to the complexity in socio-economic life (Buheji, 2018b).

Since Kahneman (2011) shown that most of the time we operate and are presumably influenced by intuitive and automatic mode; with this fast-thinking mode, chances are very high in the future that we would have more heuristics decision that increase would rapidly increase our biases. Hence, in the future PE is expected to be used more in selective deliberate thinking which can create a change that could define how the fast and slow types of thinking could be used in BE designs.

Now more studies are showing minimal attentive effort in dealing with day to day problems could help to improve our decisions more and more in future. Buheji (2018 a, b) emphasised the importance of these attentive efforts through inspiration labs. Buheji saw that inspiration labs help to improve the attentive thinking of the concerned parties by engaging them in socio-economic issues. Such inspiration labs helped to confirm that PE would continue to help people to learn to reduce their biases through being engaged with their environmental challenges and conditions (Buheji, 2019).

PE brought the prospect theory (PT) which focuses on how to deal with gains and losses, such as changes in wealth or welfare from a reference point, Tomer (2017). This lead to what is called 'loss aversion' which measure how people value gains and losses. BE using PT would help to overcome many status quo decisions that stagnate many economic and socio-economic development today and in the future. By overcoming the inertia in the consumer or the beneficiary mindset, the value of the gains could win over the value of the losses. This is highly needed for human development (Buheji, 2018b).

BE also could use more in the future feelings of the endowment effect, where people who possess an object or value can use it more than those who are not endowed. PE helps the consumer to overcome the pain associated with loss of particular possession to encourage more flow of decisions. The mug study reported by Kahnman (2011) shows that BE could be

used in enhancing the consumers' decisions regarding what they possess.

The other PE contribution to BE is framing. With framing, we can direct specific decisions in dealing with socio-economic problems and challenges in specific way. Through framing with can reduce the rational choices. Studies show different framing may impose different automatic reactions, i.e. more provoking and stimulation of system 1 thinking. Through such framing BE can take people towards focusing on monetary losses, or towards gain attentions. Hence, the selection of specific statements or facts would direct more people towards specific decisions, based on the framing of the mind towards feeling the losses or the gains. Kahneman and Tversky (2000).

Finally, PE help also to establish mental accounting tools where the BE's could use more in the future for deciding specific customised mental decisions relevant to dealing with problems that require self-control. This could be applied to encourage people saving to specific challenges, as demand for educational expenses, or healthcare services, later retirement.

#### **4. Discussion and Concluding Remarks**

This paper examined the future of BE through understanding the economic influence of both rational and irrational decisions. Tomer (2017) has serviced as the main reference book for this review. Tomer book found to be a useful reference for the introduction of behavioural economics. However, one has to disagree with the title of the Tomer book as being “Advanced” Introduction to Behavioural Economy”.

Despite the behavioural judgment, biases or errors found to differ in people. Therefore, the future socio-economic influence of BE is foresighted to play a significant effect in architecting our future preferences or solve complex socio-economic problems in relevant to decision or quality of life, women empowerment, children development, youth migration, elderly care, entrepreneurial challenges, etc. This means we can address many problems or re-invent our communities' opportunities with minimal resources, Buheji (2018 a, b, c, d).

The foresight of the future carries lots of potential for BE implementations that can help to map-out our socio-economic development. More studies in the future are expected about how people make decisions.

This paper shows that there is now a growing body of evidence about the unsuitability of many of the current economic assumptions that call for BE. In order to foresight, the fate of BE in the future more default options that facilitate self-control need to be highlighted and communicated. The findings of this research highlight that many of BE emerging practices would be utilised more by future business actors. The future would depend on the capacity of finding new ways of spreading BE through social interactions.

In the future, we can separate inconsistent choices based on cost-benefit analysis. BE underscores problems relevant to instinctive judgements, thus would suggest ways of improving our decisions.



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