

APPLICATIONS OF BEHAVIORAL ECONOMICS IN UNIVERSITY LIFE

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Abstract

In the first part of the article I have dealt with the role and place of behavioral economics in the economic sciences. Classical economic theories are criticized by the behavioral economy. We think we are rational beings and that we make logical decisions based on the information we have at our disposal. In fact, we have our own cognitive limitations that can lead to hasty decisions or confusing judgments; the real individual is a complex person, with actions that result in failures and incomprehensible behaviors for the economics Behavioral economics is trying to explain why individuals often make irrational choices, and why decisions they take do not follow exactly the patterns predicted by classical and neoclassical economic models.

*This paper is trying to assess the individual behavior involved in the decision making process in the university space. **This article describes also a series of experiments on behavioral economics.** The experiments are from university life and contest the hypothesis of the perfectly rational person's existence in making decisions and the neoclassical economic theories and models that are based only on the premise of the existence of homo oeconomicus rationalis. Observations and experiments conducted with students at Constantin Brancusi University in Târgu-Jiu are relevant in challenging the hypothesis of perfect rationality, preference stability, perfect information and market efficiency. The research method used in this article is the experiment. Study results are useful for academic management.*

Key words: behavioral economics, experiment, university, decision.

Classification JEL: A12

1. Introduction

Economic theories and economic models start from the hypothesis of perfect rationality; this hypothesis is based on the theory of optimizing the decision in risk conditions. Economic models are based on abstract individuals: selfish, perfectly rational, feelingsless. In the economic sense, the perfect rationality of the individual will always lead to choosing the option that brings him the maximum of utility. The theory of rational choice has in its center an individual who is able to quantify the risks and opportunities for gain.

The limits of rationality theory are studied by the behavioral economics. Herbert Simon proposed the term "limited rationality" [1] as the premise for the person's behavior in the decision-making process, and the empirical research in the field of psychology confirmed the challenge to the perfectly rational hypothesis and reinforced the premise of limited rationality in decision-making. Limited rationality opens the door to other decision-making questions in risk conditions.

Amos Tversky and Daniel Kahneman [2] have opened the long road of research into irrational heuristics and individual behaviors in financial markets. Thus, the behavioral economics has enriched its dowry with concepts such as: aversion to risk and regret, anchoring effect, adjustment effect, mood effect, flock effect, representativeness heuristics, etc.

The rapid development of psychology as a science and the progress in sociological research have made room for new behavioral perspectives in economic sciences. It combines microeconomics and cognitive psychology to analyze how the social environment, emotions and personal filters influence our behavior. Behavioral economists bring the science of psychology to their side in an attempt to demonstrate that in reality individuals are not able to optimize their decisions because the

information they have at their disposal within the time required to make the decision is incomplete; so what is actually happening in fact is analyzing a small number of possible options.

Where information is missing, so options are dominated by uncertainty, individuals replace information with "irrational" heuristics based on feelings and emotions. Behavioral economics tries to explain why individuals often make irrational choices, and why decisions they take do not follow exactly the patterns predicted by classical and neoclassical models.

Behavioral economists aim to broaden and improve the traditional ideas with decision making models borrowed from psychology, through a suggested multidisciplinary approach.

The contributions made by behavioral economics in studying the behavior of the individual involved in decision-making processes are unquestionable.

Behavioral economics is "also a economics but an economics with strong doses of good psychology and other social sciences" [3]. Psychological insertions scientifically grounded in the economics can be considered a necessary and natural evolution. Behavioral economics often resorts to the experimental tool that is traditionally used in psychology. Trends that deviate from the traditional model of rational choice become the norm, not the exception [4].

2. Behavioral Economics, a Solution of Contemporary Economic Issues

Behavioral economics addresses a multitude of facets of human behavior. A thorough knowledge of the decision-making process and the reasons why we often act irrationally is essential for a better personalization of communication.

The behavioral economy combats "homo oeconomicus rationalis", a calculated individual, able to quantify the expected utilities and maximize results according to the information at its disposal. In classical economic theories, "homo oeconomicus rationalis" operates in efficient markets, with automatic regulation mechanisms, accurate price information and tendency towards stable balance.

The view of behavioral economists is different from that of neo-classical economies. For them [5]:

- a. Individuals rarely have all the information necessary to make a decision in the sense of neoclassical rationality;
- b. If, however, they have this information, individuals can not always discern correctly between relevant and irrelevant information for making a rational decision;
- c. Individuals rarely manage to grasp all the possible options resulting from a direction of action, so that in reality they evaluate and prioritize far fewer options than possible ones;
- d. Individuals rarely have the mathematical knowledge necessary to correctly calculate the probability of occurrence of an event or the implications of their decisions;
- e. Even when they have this information, individuals find it difficult to quantify, so they resort to intuitive approximations based on heuristics that distort the results of "mental calculus", leading to irrational decisions.

Behavioral economics puts its mark on economic and social issues. Economic crises could have been minimized if greater importance was given to this type of economy. The recent economic and financial crisis is explained only by the behavioral economy. Economic theories speak only of the cycles of these crises. Thus, irrational thinking has triggered the financial crisis of 2007. How? People have accessed more loans than they could afford, despite the rational expectation of a future where rates on loan repayment will become higher than the individual's income levels. However, they have opted for irrational choice, although the continued rise in prices and incomes was imminent.

These irrational decisions have supported the increasing trend in prices on the property market in an artificial way. Thus, in 2007, the number of incapable borrowers was large enough to cause a sudden collapse, which has destabilized the housing market and the financial markets, fueling the

economic crisis of 2007 [6]. Thus, the irrationality of expectations was the starting point that triggered the causal chain that culminated in the outbreak of the 2007 economic crisis.

Irrational expectations in irrational behaviors do not fit into classical economic theories, but their failure to consider can cause major economic damage.

Behavioral economics is gaining an increasing role in economic life [7]. But the behavioral economy is still too "young" to become a school of economic thinking.

Behavioral economics has become a necessity because social and cultural variations influence knowledge, and social and cultural variables change the person, not just the set of opportunities for individuals, and implicitly, the decision-making process. [8]

In behavioral economics, there are additional mechanisms, such as shifts in preferences or habits and social influences on aspirations. [9].

The usefulness of the behavioral economy is also confirmed in the academic field. The experiments used and their results demonstrate the need to continue applying this type of economy in practical life.

3. Experiments from the university environment

From the field of university education we used the experiences with the students at Constantin Brâncuși University in Târgu-Jiu, as well as a series of actions of the university in the pre-university environment. Thus, in the campaigns to promote the educational offer among students in the final years of high schools in Gorj county (repeated annual action), we noticed that when the educational offer was synthesized at the level of the five faculties with the choice of the following fields: economic, administrative, technical, legal, medical options were expressed on the spot and over 40%. When the very detailed educational offer with the 22 degree programs was promoted, the choice was very poorly expressed, ie below 5%.

An abundance of options raises our expectations and is very difficult to be ever satisfied. If we choose a variant, satisfaction is canceled by the anxiety we feel by thinking about the many alternatives that we will not experience. In other words, the fewer the less options, the more the final choice will not suffer from regrets, anxieties and disappointments. In fact, we need to find an optimum between the target group's comprehension power, focus, attention and memory capacity and the number of possible choices to choose.

Well-defined preferences on which economic theories are based are largely negated by reality. Thus, students who wear expensive clothes in the cold season, but slim clothing, which does not protect their body from low temperatures, confirm the uncertainty of the stability of our preferences (rational, stable) despite the negative effects on health, demonstrating inappropriate behavior. The arguments brought by the people concerned are in the fashion and the convenience of wearing it, even if they are not protected against the cold and their cost is higher than the clothes of the appropriate season.

The motivation of the target changes as it approaches the target. Thus, for students who have proposed to pass the exams in a sessions with good marks, given the maximum marks in the first four exams of the total of six, the last two exams have supplemented the learning efforts and have made considerable sacrifices to conclude the session with maximum grades. Those in this situation have said they have stepped up their efforts to acquire / understand the subjects of exams by at least 30%.

Regarding the aversion to losses in the sense that the "pain" of a loss is greater than the "pleasure" of an equivalent gain we have tested for three years the students of the public marketing course regarding the degree of impairment / annoyance of the loss of an examination in comparison with the degree of satisfaction of passing the exam with the maximum mark (given the allocation of an

equivalent time for acquiring course notes). Conclusion of the test: The non-passing of an exam is perceived very negatively as compared to the weighted satisfaction of the maximum mark of the same exam. Thus, on a scale of 1 to 100 points, the degree of impairment for the loss of an exam is on average 92 points, and the satisfaction / joy of obtaining the maximum score, on the same scale of values, is quantified (average) at 65 points, which means that for the students questioned, the loss of the exam is far more painful than the degree of satisfaction with the maximum mark (27%). The difference between the regret of the loss and the joy of gaining is much greater if we refer to the scholarship.

Reference point - the provision to pay two different prices for the same product consumed under identical conditions

In an experiment on the consumption of coffee among students, I asked a well-known restaurant in our city to bring to college students a certain assortment of coffee that was also at the coffee machine in the hall of the faculty. Quality and quantity were similar (and displayed), but the price of the coffee which came from the restaurant was double. Students have only consumed coffee from the local restaurant. Conclusion: The provision to pay two different prices for the same product consumed under identical conditions. It prevailed in its choice of coffee (from a very good restaurant), although the price was twice as high and the quality and quantity were similar.

Matching principle - When we feel that we have a unique advantage in a program or that a program is tailored for us, we are more motivated. Students from the public administration specialization were asked to carry out a study on the relationship between civil servants from Târgu-Jiu City Hall and citizens from the locality. The average score obtained was 7.40. Later on, they were asked to make another, much more difficult study (developing the development strategy of Târgu-Jiu), but we personalized each student's approach to the study. The average score obtained was 8.05. Conclusion: Students are more motivated to conduct a research study if it is tailored to them.

Prophecies about certain events are confirmed after they have been publicly expressed. Thus, the rector's fear, publicly expressed in the pre-university admission exam, that some educational programs would not be required, nominating the environmental program, prompted potential students not to choose that study program.

The law of large numbers. Students from the International Relations and European Studies Department were asked at the beginning of a seminar to self-assess their English knowledge. When asked to give a note (1 to 10), the average was 8.20. At the end of the seminar, they were asked to self-assess their English knowledge by awarding a score of 1 to 117. The final average was 7.35. Conclusion: For the same domain, self-evaluation by giving a note (from 1 to 10) is larger and more subjective than self-appraisal using much higher scores.

CONCLUSIONS

Behavioral economics is a branch of economics that incorporates insights from human psychology into models of economic behavior for to help us understand why economic models may not make the predictions we think they should in some cases.

The behavioral economy is relatively young and does not yet propose alternative theories and models to give it credibility in the effort to enter the school of thought economics. Behavioral economics is based on experiments to learn about economic behavior. We believe that behavioural economics is meant to be a solution to the contemporary economic problems

The evidence from psychology and behavioral economics has placed an even greater emphasis on the importance of testing economic models with real data.

The behavioural economics is the branch of economics that relies on experiments to illuminate economic behavior.

Behavioral economists attempt to identify systematic “biases”.

Departures from rational choice can inform the development of more general, descriptive models of economic behavior

Models can be used to develop testable hypotheses and predict economic behavior

Behavioral economics is a growing branch of economics, and its practitioners can be found in most of the best universities around the world. And recently, behavioral economists and behavioral scientists more generally are becoming a small part of the policy-making establishment. [10]

Behavioral economics helps us to figure out what our innate boundaries are and how we can get over them when we face important decisions.

Behavioral economics is an ongoing revolution in economics that examines aspects of decision-making left out of the rational actor model with fixed preferences.

Behavioral economics can help us better diagnose and address development challenges.

Behavioral development economics enlarges the scope of policy tools and provides new explanations for why a short-term intervention or an historical event may have persistent effects. Interventions can change how people think in the moment of decision; in some cases, exposure to new social patterns can have persistent effects. [11]

Finally, behavioral economics suggests ways how policy makers might restructure environments to facilitate better choices [12]. The focus on errors suggests ways how policy makers might restructure environments to facilitate (nudge) better choices.

Compared to traditional research methods, behavioral economic cannot be measured by classical methods. Empirical studies can validate a direction or provide recommendations for making a decision. The behavior of the consumer is influenced by the cultural environment in which he belongs. The motives vary according to how each individual is modeled, from which the environment is, the stage of life and the degree of completion of Maslow's pyramid.

The results of this study can be used for academic management. Moreover, this beginning of the implementation of the behavioral economy in the university life can be developed.

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