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Economy and Psychology: which relationship?

Abstract

The main problem: The purpose of this article is to introduce the research and study discipline of economic psychology in relation to its theoretical development on economic choices and decisions and individual economic behaviour.

Objective: Describe the birth and fundamental characteristics of the discipline of Economic Psychology related to economic choices and decisions. In addition, we want to provide arguments on the difficult and complex relationship between economics and psychology because Psychology and economics have very different approaches to the study of the choices and decisions of firms and individuals.

Methods: The main method used for the development of this research is both deductive and inductive, i.e. a use of both classical research tools. The line followed is that of analysis made through historical context in which the discipline of economic psychology has developed. The research is based both on the analyses and study of the numerous books and article.

Results and their significance: The research is an introduction to the fundamentals of the Economic Psychology.

Keywords: economic psychology, economy, psychology.

Introduction

The research is on the complex and apparently conflictual relationship between the discipline of economics and that of psychology. Psychology and economics have very different approaches to the study of the choices and decisions of firms and individuals. In general, economic science has adopted a prescriptive method (economic laws), with models and rules that have universal claims to application. *Economics* has emphasized the principle of rational choice and the principle of rationality. Choices are optimal if they are rational, if they know and take into account the available resources, take into consideration and evaluate in a comparative way all the different possible options, arranging them on a rational hierarchical scale of value and finally choosing, among the various options available, the one that minimizes costs and maximizes results (the law of maximization of utility). *Psychology* has adopted a descriptive method of analysis, it has rather observed the mental models, the motivations, the limits in the application of rationality that lie behind the choices. Such an important difference has certainly created mutual distrust and criticism: The economist accuses psychology of the lack of a general theory, while there are several «fragmented» and not entirely coherent theories, while the psychologist argues that economics provides a theorization that takes little account of emotions, feelings, subjectivity and, above all, the limits of the human decision-maker, whether it is a single individual or a group. In addition, the limitations in the application of economic theories are emphasized, the existence of errors that are not explained by the theories themselves. Economic Psychology tends to reduce the difference and conflict between the two disciplines and wants to demonstrate not only that emotions and feelings strongly condition individual choices and economic strategies adopted.

Materials and methods

The origin of the economic psychology.

Scientists agree that the birth of the discipline of Economic Psychology coincides with the book entitled «Economic Psychology» by Gariel Tarde (France) published in 1902.

In this historical period, an intellectual movement was born that criticized Economic Science, which imposed the rule of rational choices at the centre of everything.

Economic theories and the errors that these theories make in their concrete application are beginning to be questioned.

The development of Economic Psychology as a new discipline took place in the United States of America by a Psychologist named George Katona.

His research and practical activities culminate in his main work: Psychological Economics (1975).

G. Katona argues for the need to integrate economic considerations with psychological ones:

«Economics without psychology is incapable of explaining important economic processes, just as psychology without economics is unable to shed light on some of the most common aspects of human behaviour. According to Katona, economic analyses aimed at identifying invariable laws have systematically neglected or simplified psychological variables. If human beings behaved like automatons, that is, reacted equally to the same stimuli, we could comfortably do without psychology». Katona studies individual economic behaviour and carries out numerous surveys on consumer behaviour and verifies that consumer reactions to economic stimuli can be explained and predicted. He assigns great importance to the notion of «expectation» to explain consumer behavior. This notion can be used to predict future consumption behavior and as an indicator of economic performance. Expectations can be measured: for this purpose Katona built the Consumer Sentiment Index and with it he achieved the first great success of economic psychology when in 1964 he was able to anticipate that the US economy was about to enter a phase of strong growth, driven by the increase in consumption, while conventional indicators predicted a recession.

Homo oecomomicus is the concept at the base of classical economics. It is the representation of man as an abstract concept, considered in a way completely detached from his social and cultural environment; it tends only to the satisfaction of his needs. In neoclassical economic theories, homo oeconomicus is the activator of economic mechanisms, endowed with perfect rationality. It should be emphasized that in this context the term rationality has a different meaning from that attributed to it in philosophy or in the ethical field or, even more so, in the common sense. The man of economic theory is rational and selfish and his tastes do not change. Conversely, men studied by psychology have a worldview limited by the information available at that time and therefore cannot be as logical and coherent as the economic man. Sometimes they are generous and often they are willing to give their contribution to the group to which they are linked. They also have almost no idea what they'll love next year or even tomorrow.

The homo oeconomicus is an idea of the one who acts alone. The quality of rational choices is evaluated with the criterion of maximum quantity at the best price. It bases its choices on the evaluation of its personal «utility function»: a good is «useful» to the extent that it can satisfy an individual need. The homo oeconomicus has a system of preferences, he pursues the goal of maximizing his earnings and therefore his well-being, making the best use of his resources. The homo oeconomicus will always tend, in whatever situation or event he is involved, to maximize his utility.

The homo oeconomicus is seen as «rational» in the sense that he pursues a certain number of goals trying to achieve them as widely as possible and with the least cost.

Principle of descriptive consistency: Individuals make their choices regardless of how various options are offered to them. The framing effect interferes with this principle.

Principle of procedural consistency: Individuals express their preferences regardless of how they are asked to express them. The principle of compatibility interferes with the principle of procedural consistency.

Principle of erasure: An individual's preferences must depend on the characteristics that distinguish and not on those that unite the options of choice. The representation of a problem related to thematic calculus interferes with the principle of cancellation.

Principle of the Certain Thing: The choice between the different alternatives should depend exclusively on the different outcomes offered by each alternative. If an individual prefers option X to option Y, regardless of whether event Z occurs, he will maintain the same choice regardless of the degree of uncertainty/certainty of event Z. When the decision takes place in conditions of uncertainty, subjects tend to violate the axiom of independence (or principle of the certain thing).

Psychology's critiques of the principle of economic rationality. The principle of economic rationality is disputed by psychologists. First, psychology considers the FRAMING EFFECT. The framing effect belies the rational principle of descriptive coherence.

According to Economic Psychology, economic choices are conditioned by a framing effect (also called framing). Faced with two identical choice options, if different descriptions have been used for them to communicate, people change their choice. For example: options A and C are equal; if I change the communication and invert the options by creating two choices B and D, which are actually the same as A and B, people change their choice preferences. The differences concern the framing effect: the Frame is positive in the first case, while the Frame is negative in the second case.

Second, the Prospect theory. The human decision-maker is risk-averse even in the face of a possible gain or a favourable prospect; conversely, if the outlook is unfavourable (or involves a certain loss), risk is preferred to certain loss. These are two specular situations but perfectly explicable with the prospectus theory. Studies have shown that the intensity (or psychological value) of sorrow at the loss of a sum is far greater than the pleasure of speculating gain. In general, all losses are weighted about twice as much as the gains, regardless of the different contexts and situations in which the choices are made. Losses are probably adverse because they are linked to an idea of personal failure, therefore to a negative evaluation of ourselves.

A central aspect of prospectus theory is the function of subjective value:

1. Loss aversion: a loss has a greater impact than a gain of the same amount;
2. People tend to avoid risky choices in the earnings domain and are more likely to make risky choices in the loss domain;
3. Gains and losses are defined based on a mental operation with respect to a point of reference.

What still does not explain the prospect theory is the regret and disappointment for the choices made. Feelings of regret or even the fear of regret act in many decisions. Decision-makers know that they are prone to regret and predicting that painful feeling plays an important role in many choices. The intuitions about regret tend to be uniform and unequivocal. People expect to feel more regret when negative results come from their actions rather than from their inaction. This asymmetry is linked to the fear of feeling regret; favors conventional and risk-averse choices.

Third, Economic choices and the principle of compatibility. People give more weight to the positive features of options when they choose, while they give more weight to negative features when they eliminate the options they think are worse. By following the principle of compatibility, people can make choices that violate the principle of procedural consistency.

Endowment effect. The endowment effect refers to the estimation of the value of an asset, which, however, is affected by affective aspects related to the object owned. People seem to feel more sorrow in depriving themselves of the objects they possess than in the pleasure of getting hold of those same objects, if they do not already own them. The endowment effect relates to «loss aversion», whereby the motivation to avoid a loss is stronger than the motivation to obtain a similar gain. The endowment effect is not activated when goods intended for exchange are taken into consideration (for example: the owner of a video game store when he sells his products, or those who have bought a house for investment purposes only, etc.). In other words, the endowment effect is activated on goods intended for use but not on those intended for exchange. The results of experiments conducted in this field have always given substantially similar results, even if differences related to cultural aspects have been detected.

Ethics and economics seem to have evolved independently of each other. In particular, today economics seems to be the opposite of ethics. The distancing of these two disciplines has impoverished both, because:

– the economy needs ethics, because the motivations of human conduct are deeply imbued with ethical considerations;

– ethics needs economics, because many of the issues it deals with have an economic value, such as poverty. The consciously «unethical» character of contemporary economics is nonsense. First, historically, the evolution of the discipline of economics derives largely from ethics. Moreover, a conception of economics without ethical evaluations is extremely limited, because man does not have mechanistic behavior and his motivations are not as narrow as those assumed by traditional economic theories.

Traditional economic theory starts from the assumption of the rationality of human behavior. The rationality of human behaviour is identified with the coherence of choices and the maximization of personal interest. Amartya Sen (Indian economist and philosopher, Nobel Prize in Economics in 1998) believes that this explanation of human motivation is too narrow: economics is interested in real people, whose behavior is also driven by ethical motivations (such as: «how should we live?»). Economic psychology also fundamentally criticizes the opposition between «ethics» and «economics», because, historically, the evolution of economics, as a theoretical discipline, derives largely from ethics.

According to A. Sen, the economy has two origins:

a) ethics (Aristotle)

The study of economics cannot be limited to the study of the accumulation of wealth. The economy it must also consider social outcomes, as Aristotle argued.

Amartya Sen affirms the «conception of human motivation linked to ethics». In other words human conduct is strongly motivated by ethical considerations such as "How should we live?". For this reason, it is neither possible nor appropriate to dissociate the study of economics, understood as human behaviour, from that of ethics and political philosophy.

The «ethical» origin of economics stems from Aristotle's thought. How can we determine what is the best thing that can happen? How can we determine how we should behave, how we should live? The definition of a just life and, consequently, of a just society, as well as the investigation around these concepts, is central to both Ethics and Politics. The Nicomachean Ethics begins by stating that we often make a grave mistake. In fact, we often take it for granted that some things, very valid as tools - for example having a lot of money, a certain wealth or a good income - is all we are interested in. But if we stop to reflect, we immediately realize that we do not pursue wealth as such, an end, because wealth, as Aristotle says, is always a function of some other goal, it is not an end in itself.

Aristotle links economics to human purposes, distinguishing economics from simple accumulation of wealth: «The life devoted to commerce is something against nature, and it is evident that wealth is not the good we seek; in fact, it is only for the sake of gain and is a means to something else». (Nicomachean Ethics.) In other words, wealth has an exclusively instrumental importance. This means that its value, its relevance are contingent. Politics is «the most important of all the arts» and must use the other practical sciences, including economics. The goal of politics, and therefore also of the economy, is «the human good». According to Aristotle, therefore, the economy has a purpose linked to the well-being of societies, of the human collectively. The ethical approach has weakened as the modern economy has evolved.

b) the engineering model

It is a technical approach to the production of goods and wealth that does not take into account the ultimate ends of man's economic activity. The engineering model determines a study of economics that is very focused on achieving results. Human behaviour is based on simple motivations, excessively reductive of the reality of human behaviour. The engineering idea of economics has produced positive results, and this has happened despite the distance of economics from ethics. Among the positive results achieved by the engineering approach is, for example, the elaboration of the formal theory of «General Equilibrium». This theory has made it possible to understand important aspects of human reality, even in the excessive simplification of the model of human behaviour adopted. Thanks to the engineering approach, it was also possible to understand the interdependence of social facts, for example the causal analysis of famines that can occur even in situations of high and increasing availability of food.

The economy needs ethics. Economics can become more productive if it pays more attention to the ethical considerations that are present in human behaviour. Ethics is fundamental to the economy for two reasons:

1. Much of the economy concerns the identification, implementation and evaluation of interventions or measures (prescriptive and regulatory economics). To evaluate, it is necessary to have not only criteria, but also ethical reference values. So there is a need for ethics to decide whether things are better or worse, whether such a measure would be good or whether something else would be bad.

2. There is a need for an ethical analysis, because ethics influence the values that each person possesses and human behaviour is motivated by ethical values. In addition, the economy must ask itself the question of the "common good".

Ethics needs economics. Ethics needs the help of economics to complete its analysis.

1. Ethics must come to terms with the consequences of the economy: «In reality, it is not true that an ethical judgment can be made that is entirely independent of action. If we do an action with the best possible intentions and this action causes the death of a million people, it is obvious that it is a terrible thing and that it should not be done. So I don't see how ethics can be dissociated from consequences. And many consequences of our actions operate through the economy, because the economy is a strong link between human actions and their consequences».

2. Most ethical issues have to do with economic aspects or problems in which the economy plays a significant role.

Economic behaviour and motivation. Modern economics starts from the assumption of man's rational behaviour. This assumption describes the intentions, not the actual behaviour of men. First, it is possible that a concept of rationality can admit alternative patterns of behaviour. Furthermore, the content of rational behavior as such should not be confused with the misidentification between rational behaviour and actual behaviour. Rational behavior, in economics, has had an excessively narrow meaning. In the context of economic theory, the rationality of human behavior has two aspects:

– rationality as the internal coherence of the choice made.

– rationality as maximization of personal interest.

According to A. Sen, it certainly cannot be argued that everything that does not meet the above requirement is irrational (see altruistic behaviour). To consider a reduction in the maximization of self-interest as evidence of irrationality is to deny ethics a role in decision-making. Finally, A. Sen adds that there have been very few empirical tests of the validity of this assumption in economics. For example, the success of a market such as Japan's says little about the motivations behind the action of economic agents in such an economy, if one does not refer to the so-called «Japanese ethos». An individual's decisions are not only determined by their self-interest, but also many other motivations. In the case of group bonds, selfish and altruistic behavior are mixed. A. Sen goes further, affirming the falsity of the dichotomy between personal interest and general interest.

A reinterpretation of Adam Smith's thought. Is it true that people behave in a way that is exclusively motivated by self-interest? Moreover, if people's behaviour were moved only by self-interest, would it achieve greater efficiency or efficiency of one kind rather than another?

From these questions starts the critique of Economic Psychology to the misinterpretation of Adam Smith's economic thought. Adam Smith is seen as the one who equates self-interest with self-love, arguing, among other things, that such an attitude is necessary for the development of the economy. A. Sen criticizes the widespread opinion that A. Smith theorized the absolute freedom of the market. According to A. Sen, Smith did not think that people are primarily concerned with their own interests or that attention paid exclusively to their own interests would be acceptable. According to Smith, in many cases, the focus exclusively on one's own interest works very well, for example in the context of economic exchange.

However, it would be a mistake to consider A. Smith as an apologist for the market: he was aware of the need to introduce regulations, for example for the control of wear and tear. Adam Smith also pointed out the difficulties and limits of the functioning of market mechanisms, such as hunger and famine. When Smith was writing in the late eighteenth century, his understanding of how the market works was extremely limited.

At the time, there was a widespread belief that positive results could be achieved through government regulations and controls. Many of these controls, however, were substantially counterproductive, because they prevented trade between different countries, limited the movement of goods and services. In the «Theory of Moral Sentiments» and in some parts of the «Wealth of Nations», Smith emphasizes that the pure pursuit of one's own interest is not adequate to deal with a number of problems; it is appropriate in the case of exchange, but it is not appropriate for the establishment of human societies or for obtaining a good distribution of the income, well-being and wealth of a nation. But according to Smith, if one limits oneself to exchange, the motivation offered by the pursuit of one's own interest pursued intelligently, can be perfectly adequate.

According to Adam Smith, human behaviour is driven by many motivations. Individuals' motivations in the context of exchange can be very narrow, even narrower than Smith believed was generally desirable for human relationships. Of course, there is the one related to one's own personal interest. The enlightened pursuit of one's own interest is then reflected in Smith's notion of «prudence». Prudent behavior is motivated by self-interest, but it is carried out in an intelligent and enlightened way. To achieve these goals you need other motivations, which include sympathy for others, which to some extent is part of prudent behavior because, as Smith says, being able to sympathize with others can, in the long run, be useful to us. But in addition to sympathy there are other motivations, such as generosity and public spirit. In this way A. Smith combines ethics, psychology and economic behaviour [1].

Happiness and economy. What is the well-being or happiness of a nation? Early theories of economic development identified «development» and «well-being» with growth and industrialization. In the early part of the twentieth century, the approach followed mainly for the study of economic development referred to the «Theory of stages». According to this theory, all countries pass through the same stages of economic development, so the «underdeveloped» nations would be at an early stage along the linear path of historical development, while the developed nations would be at a later stage. Thus, Latin America, Asia, and African countries were regarded as «primitive» versions of European nations destined to develop over time, developing both the institutions and the standards of living of the West. After the end of the Second World War and starting from the period of decolonization, the «Theory of stages» was overcome. However, the idea remained strong that countries tended to show similar patterns of development. Development was related to the growth of production, thus identifying the formation of capital as the central factor for accelerating development. In the 1980s, a very serious «debt crisis» broke out and the failures of the 1970s in the attempt to reduce poverty emerged. An idea was born that sees Development as an economic process that had to be activated with determination, possibly removing the state structures that prevented growth, and not an automatic reaction to external stimuli. From this «new orthodoxy» will derive directly the policy practiced by the World Bank and the International Monetary Fund with the Structural Adjustment Programs and the practice of aid conditionality. In the 1990s, the idea that an increase in GDP does not necessarily lead to a proportional increase in the well-being of the population is gaining ground.

Easterlin's paradox. The Easterlin Paradox or Happiness Paradox was developed in 1974. The economist Richard Easterlin, trying to understand the reasons behind the limited diffusion of economic growth in the contemporary world, showed that people's happiness depends very little on changes in income and wealth. This paradox, according to Easterlin, can be explained by observing that, when income (and therefore economic well-being) increases, individual happiness increases progressively, but only up to a certain point, then begins to decrease, following an inverted U-curve. Following Easterlin's paradox, a branch of economics was born that studies the relationship between Economy and happiness. The data collected by Easterlin were based on subjective self-assessments of happiness (in which respondents answered the question: «Overall, do you consider yourself very happy, fairly happy, or not very happy?») and basically came to highlight a non-significant and «robust» correlation between: national income and happiness: studies that showed in particular the «indirect» effects on happiness of other factors generated by developed economies such as greater stability of democracy, greater protection of human rights and better health conditions). Easterlin's paradox has undermined the global approach of markets aimed at growth measured based on gross domestic product and has led economists and psychologists to question more deeply what people mean by «happiness», what makes them «happy». If, in fact, achieving economic well-being does not guarantee a happy life, Easterlin's paradox leads us to reflect on what objectives, which lifestyle is best to pursue and what are the prospects for social well-being (welfare) for a society that intends to put the person and his or her needs at the center of every public decision [2].

The limits of measuring development using GDP. GDP was conceived to be a tool for measuring the productive capacity of the war period, however over the years it has become a sort of measure of a nation's well-being: its growth arouses applause, its stagnation generates concern. This happens for various reasons, some of which can be shared, including the repercussions on employment. Yet, Simon Kuznets himself, its main creator, has repeatedly pointed out the error inherent in the formula «more GDP = more well-being». Since GDP increases every time a transaction occurs in the economy, inevitably its growth tends to be linked to expenses that, in some cases, represent an indication of malaise rather than well-being, such as those associated, for example, with ecological disasters, the fight against crime, divorces. Expenses incurred for the remediation of an oil spill, or for the treatment of a pollution tumor, while increasing GDP, are symptoms of damage to the environment and to man. «An increase in spending on Prozac, while stimulating GDP, does not imply greater happiness».

Human Development Index (HDI). In the 90s, the HDI developed the Human Development Index (HDI). Inspired by Nobel Laureate Amartya Sen, the United Nations Development Programme has developed the Human Development Index (HDI). The HDI resizes the weight of GDP by giving space to other elements that affect human well-being and that try to bring out, albeit synthetically, the role played by freedoms, so dear to Sen. In his vision, «development is freedom»: freedom to do and to be, and this explains the inclusion of longevity and education in HDI. The Human Development Index focuses on the reality of the population of a given country.

Sustainable Economic Well-Being Index. The index of sustainable economic well-being reveals serious limitations where it leaves out options to which people can attribute great value: the possibility of enjoying civil and political rights, for example, and protection against violence, insecurity, discrimination, social level, environmental preservation. This is where two American economists, Daly and Cobb, started. They have noted that damage caused to the natural heritage, which is finite and limited, both in terms of degradation and consumption of exhaustible resources, must be included in the liabilities of a new accounting system which considers the quality of the environment to be one of the essential conditions for human well-being.

On this basis, they have therefore tried to develop a new alternative index, the ISEW (Index of Sustainable Economic Welfare).

The new Index (ISEW) thus recalculates income starting from the subtraction of unrestored environmental damage but also considers the distribution of income and the quality of human relationships, partially overcoming the gaps still present in the Human Development Index. The Daly and Cobb index is not perfect, however. However, it has a great merit: it confirms to us, with scientific rigor, what we often seem to intuit, that is, that already now in the Western world the increase in well-being is no longer linked to the increase in material goods at our disposal, but rather to our ability to re-establish satisfactory relationships with other human beings and less destructive with the natural environment.

The Genuine Progress Indicator (GPI). A further effort to overcome the measurement of progress through GDP is the Genuine Progress Indicator (GPI), developed by the Non-Governmental Organization «Redefining Progress». Analogous to Daly and Cobb's index of sustainable economic well-being, the GPI subtracts from GDP the social costs related to crime, divorce, pollution and the deterioration of natural resources, and adds to the gross domestic product the value of work done within the family and volunteering.

In addition, the GPI considers other factors, such as income distribution (the higher the equity, the higher the GPI), services and costs of durable goods and infrastructure, capital borrowed from abroad, availability of leisure time (the more free time, the higher the GPI).

With this procedure, the GPI frees itself from the assumption that every monetary transaction corresponds to an increase in well-being. Thus, for example, the comparison between GDP (GDP) and GPI per capita for the US shows a considerable distance.

Herbert Simon and Limited Rationality. H. Simon, an American psychologist and economist, argues that the decision is a process where we choose the alternatives that we consider the most suitable means to achieve certain ends. The ends, in turn, become means to achieve further ends. In this way, a chain of means-ends is created, where each element is both an end and a means to achieve higher level ends. The means-ends chain, of course, is created by a chain of decision-making processes, which from time to time identify the most productive options. Simon addressed the issue of the limit of rational choices. Simon criticizes the prescriptive approach, considering it limited: the study of human decisions and behaviour must not only focus on the outcomes of the decisions made, rather it must study and describe the ways in which men make choices, from which the related behaviors derive.

However, there are strong and objective limits to the absolute rationality of decisions made by men: the rationality of the human decision-maker is intentional and limited. Simon therefore proposes to replace the model of economic man, perfectly rational, who interacts with an objective world, with the model of administrative man, limited rational, who interacts with what he perceives of the world. The paradigm of bounded rationality (H. Simon) states that:

1) our ability to collect and process information is limited;
2) we never have (in an absolute sense and at the same time) all the options of choice;
3) we cannot assess and predict all the consequences associated with each option.

Satisfactory choices versus optimal choices. Despite common thought, in most cases the human decision-maker (individuals, groups, organizations) makes his choices using the satisfactory alternative, not the optimal one. According to Simon, therefore, the criterion of «optimization» of choices must be replaced with that of «satisfaction»: the human decision-maker chooses the option that guarantees at least the minimum acceptable level for the result to be obtained. This minimum level is assessed and identified with respect to the criteria defined by the decision-maker himself. The criterion of satisfactory choice is at the same time also a criterion of efficiency: the search for solutions does not necessarily have to go on until all the alternatives have been evaluated, but can be closed when the criterion of satisfaction is reached.

The National Happiness/Well-Being Index (D. Kahneman. D. Kahneman proposes to base the evaluation of the successes of economic policies not only on the wealth produced but on measures related to the quality of life and the satisfaction of individuals with respect to the community. The

«National Well-Being Index» is a kind of international «happiness ranking», to be "The happiest countries - he explains - seem to be those of Northern Europe, while among the unhappiest there is Italy. There is a substantial difference: in the Nordic countries, «life satisfaction» is high, a more objective assessment of the quality of life, for example on services, education, public goods, health, but happiness understood as a daily experience is low, as it is linked and dependent on factors such as mood, temperament and mood. In Italy it seems to be the opposite, that is: subjective happiness (temperament, positivity, state of mind) is high, while life satisfaction understood as quality of life is very low. In short, you are cheerful, with a joyful temperament, but not satisfied. The method of investigation adopted is called the Day Reconstruction Method and its results contradict the idea that the rich are the happiest. According to Kahnemann, only through an analysis of how people spend their time and what feelings accompany the whole day can we get an idea of the level of well-being of the whole society. This is why it developed the Day Reconstruction Method. More generally, Kahnemann's research has shown that there are significant differences between the very poor and the rest of the population when it comes to analyzing the effects of divorce and loneliness. In addition, the beneficial effects of the weekend on the well-being experienced are much lower among the very poor than in most people. Furthermore, a higher level of education is linked to a higher evaluation of one's life, but it is not linked to a higher well-being experienced. Genetic factors are important on the evaluation of one's own well-being and on the evaluation of one's life, but in the calculation of well-being situational factors are also important, especially physical health and social contact.

Heuristics and Biases. When we make choices, we do not evaluate every possible option, but we use simplifications. It is important to note that, in most cases, these strategies lead to good quality choices, but speed or ease sometimes come at the expense of the accuracy of judgment. These strategies are called judgment heuristics: already known patterns are applied. The decisions that we generally face, even daily, concern problems that arise in situations of uncertainty, consisting of options that are sometimes not well defined. The human cognitive apparatus, in order to cope with a large amount of information, judgments, inferences and decisions that often exceed its processing limits, uses practical rules, *heuristics* and often does so automatically and unconsciously. Faced with the impossibility of keeping a multiplicity of information under control and manipulating, the decision-maker adopts these shortcuts that allow the simplification of the problem. In other words, our mind uses intuitive thinking to estimate the probability of events, predict the future, evaluate hypotheses about our decisions; heuristics, however, determine errors of evaluation, called biases. Heuristics have been studied above all by Tverski and Kahneman (1973) who have developed the Theory of Judgmental Biases. The use of heuristics is more likely in situations where people must engage in complex judgments in the presence of factors that decrease the accuracy of cognitive processes. They are difficult to avoid, because we apply them mechanically, unconsciously and only after applying them to our judgments can we realize that we have used them. Typical of heuristics is the fact that the subjects ignore the statistical data of the situations examined, relying instead on criteria of similarity. The use of heuristics does not depend on the IQ, nor on the amount of previous knowledge [3].

Cognitive dissonance is a psychological phenomenon where an individual experiences mental discomfort ddue to holding conflicting beliefs, values, or attitudes, often leading to a change in beliefs or behaviors to reduce this discomfort.

Leon Festinger's theory. The starting point of Festinger's theory is the observation that each person is animated by the need for coherence in front of himself, between his own way of thinking and/or acting. When this does not happen and the subject must decide, a situation of cognitive dissonance is created.

Dissonance arises when the individual must face, within the choice made, pairs of dissonant elements that concern cognitive aspects relating to his environment and the surrounding world, to his person and awareness of himself, to his behaviour. Dissonance causes psychological discomfort, so the individual will try to reduce it, restoring the original coherence, according to a procedure defined as «dissonance reduction». In addition, the individual will actively avoid situations and knowledge that could increase dissonance.

The magnitude of the dissonance depends on the importance of the object on which the decision is made and on the power of attraction of the rejected alternative. Dissonance is also particularly linked to choices made where the individual considers himself fully responsible for his actions and their consequences. The existence of dissonance gives rise to pressures tending to reduce it. The energy used to reduce the dissonance proportionate to the magnitude of the dissonance: the greater the dissonance, the greater the effort devoted to reducing it and the greater the desire to avoid situations that could increase it. How can cognitive dissonance be reduced or eliminated?

1. By changing your behaviour
2. Producing a change in the environment in which the dissonance originated.
3. By changing one's cognitive world.

Dissonance can be reduced by changing one's opinions, attitudes, and representations, integrating information and knowledge that can increase consonance. However, it is not always possible to eliminate dissonance or reduce it to a noticeable extent. The individual may encounter difficulties in trying to change both his behavior and his awareness. This is the reason why dissonance, once formed, can persist: for example, if a very important expectation for the subject is disconfirmed, the subject can implement cognitive strategies to recreate coherence.

An important consequence of cognitive dissonance theory is that the need for cognitive coherence can influence change in attitudes. In fact, a logical coherence is associated with a coherence of attitudes. In other words, choosing (freely) to change one's behaviour generates a cognitive restructuring.

The theory contradicts behaviourism in several points, according to which external reinforcement is decisive in producing behaviors and attitudes, because it shows that the need for coherence (internal to the subject) is stronger than external motivations [4].

Albert O. Hirschman did not write a systematic theory of cognitive dissonance in the psychological sense (that is Leon Festinger’s domain). However, cognitive dissonance plays a central, implicit role in Hirschman’s work – especially in how individuals and groups cope with contradiction, disappointment, and blocked action. Festinger cognitive dissonance is a mental discomfort caused by holding inconsistent beliefs or by a gap between beliefs and actions.

Hirschman: focuses on what people do when reality contradicts expectations – economically, politically, morally. For Hirschman, dissonance is not only a psychological tension.It becomes a motor of action, justification, or adaptation. Possibilism Against Dissonance Closure: Here Hirschman is deeply anti-Festingerian. Cognitive dissonance theory often explains how people close contradictions. Hirschman values situations where dissonance is kept open, explored, and transformed into learning.

This is the core of possibilism: Progress comes from surprise, failure, and unintended consequences. Premature coherence is dangerous; Tension can be productive. Hirschman prefers inconsistency with curiosity over consistency with dogmatism. For Hirschman: Reducing dissonance too quickly leads to ideology, apathy, or exit. Living with dissonance enables voice, experimentation, and democratic learning.

Discussion

Psychology and economics have very different approaches to the study of the choices and decisions of firms and individuals, but the conflict is only in appearance. The purpose of this article is to introduce the research and study discipline of economic psychology in relation to its theoretical development on economic choices and decisions and individual economic behaviour. Describe the birth and fundamental characteristics of the discipline of Economic Psychology related to economic choices and decisions.

Conclusion

Economics has emphasized the principle of rational choice and the principle of rationality. Choices are optimal if they are rational, if they know and take into account the available resources, take into consideration and evaluate in a comparative way all the different possible options, arranging them on a rational hierarchical scale of value and finally choosing, among the various options available, the one that minimizes costs and maximizes results (the law of maximization of utility). Psychology has adopted a descriptive method of analysis, it has rather observed the mental models, the motivations, the limits in the application of rationality that lie behind the choices.

Economic psychology studies how real people think, feel, and decide in economic life.

It rejects:

– perfect rationality,
– stable preferences,
– purely incentive-driven behaviour.

Instead, it emphasises:

– bounded rationality,
– emotions,
– identity,

– beliefs,
– narratives,
– social learning.

Key mechanisms include:
– cognitive biases,
– emotions such as fear, hope, anger, and trust,
– cognitive dissonance,
– identity-based decision-making.

In conclusion, Economic Psychology tends to reduce the difference and conflict between the two disciplines and wants to demonstrate not only that emotions and feelings strongly condition individual choices and economic strategies adopted.

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Экономика және психология: қай қатынас?

Бұл мақаланың мақсаты – экономикалық психологияның экономикалық таңдаулар мен шешімдер мен жеке экономикалық мінез-құлық туралы теориялық дамуымен байланысты зерттеу және зерттеу пәнін таныстыру.

Экономикалық психология пәнінің экономикалық таңдаулар мен шешімдерге қатысты дүниеге келуі мен негізгі сипаттамаларын сипаттаңыз. Сонымен қатар, біз экономика мен психология арасындағы күрделі және күрделі байланыс туралы дәлелдер ұсынғымыз келеді, себебі психология мен экономика компаниялар мен жеке тұлғалардың таңдаулары мен шешімдерін зерттеуде өте әртүрлі тәсілдерге ие.

Бұл зерттеуді дамытуда негізгі әдіс – дедуктивті және индуктивті, яғни классикалық зерттеу құралдарын қолдану. Келесі бағыт – экономикалық психология саласы дамыған тарихи контекстке негізделген талдау. Зерттеу көптеген кітаптар мен мақалаларды талдау мен зерттеуге негізделген.

Зерттеу экономикалық психологияның негіздеріне кіріспе болып табылады.

Түйін сөздер: Экономикалық психология. Экономика. Психология

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Экономика и психология: какова эта связь?

Цель этой статьи – представить тему исследований и исследований, связанных с теоретическим развитием экономической психологии экономических выборов и решений, а также индивидуального экономического поведения.

Необходимо описать происхождение и основные характеристики дисциплины экономической психологии в контексте экономических выборов и решений. Опишите, как дисциплина экономической психологии анализирует индивидуальные экономические поведения.

Основным методом развития этих исследований является использование дедуктивных и индуктивных, то есть классических исследовательских инструментов. Следующее направление – анализ, основанный на историческом контексте, в котором развивалась область экономической психологии. Исследование основано на анализе и исследовании множества книг и статей.

Исследование является введением в основы экономической психологии.

Ключевые слова: Экономикалық психология. Экономика. Психология

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