GRAND ACADEMIC PORTAL
RESEARCH JOURNALS

GAP BODHI TARU
A GLOBAL JOURNAL OF HUMANITIES
(ISSN – 2581-5857)
Impact Factor: SJIF - 5.171, IIFS - 5.125

GRAND ACADEMIC PORTAL (GAP) 2017
ज्ञान: अध्ययन: परम्परा

THE ROLE OF EMOTIONS IN ECONOMICS : AN INTERDISCIPLINARY ENQUIRY.

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Abstract

The role of emotions in mainstream economics was not recognized explicitly in the classical, neoclassical or even Keynesian approaches. The idea of emotion is vast and complex, highly relative to the states of mind of people, the place, time and the context of inquiry made. It is not surprising, therefore, that a quantitative branch of study such as economics, does not delve deeper into emotions to forge the link with consumer or producer behavior. However, emotions have always played a very decisive role in shaping economic decisions. The most basic tenet of 'Utility' for e.g, is defined as the want satisfying power of a commodity , which can be quantified or graded in an ordinal sequence. Inherently, emotions (such as pleasure, prestige or demonstration effect are working beneath the decision to buy) till recently, before the introduction of Behavioural economics, the only loose link that emotions can perhaps be seen to have with micro economic framework was in the concept of Utility. Behavioural economics was credited for the first time to fully analyse the role of emotions in economic decisions.

This paper, aims to looks at how the concept of utility was analysed by different schools of thought of economics and the probable relation it may have with emotions. How the introduction of behavior economics identified the role of emotions in understanding decision making? Finally, It tries to identify which type of emotions influence an individual's decision making about which kind of consumer purchases and thereby attempts to show the interdisciplinary approach of economics specially with that of psychology in the modern marketing and consumer behavior analysis. The paper is based on secondary data in the form of published articles and web links as well as a small sample of primary data.

Keywords : Emotions, Decision making, Behavioural economics, Immediate emotions, expected emotions.

INTRODUCTION

The relationship between emotions and economics as a social science discipline has been that of a complex and uncertain nature. Emotions are in itself a wide array of feelings that humans experience at different situations. According to Sternberg R, "An emotion is a feeling comprising physiological and behavioral (and possibly cognitive) reactions to internal and external events."

On the other hand, In his landmark essay on the nature of economics, Lionel Robbins defined economics as
"The science which studies human behaviour as a relationship between ends and scarce means which have alternative uses"

Emotions, are obviously the ultimate guides to an individual's decision of what to choose given his limited resources. However, the treatment given to emotions in economics, varied great deal with the different schools of thought. The common factor which recognized the idea of any "emotions" was the concept of Utility, and different economists have viewed utility very differently, sometimes fully justifying the role of raw emotions in it, and sometimes stripping it off in the pursuit of making it quantifiable and non ambiguous. Adam smith in 1776, in his book "The Wealth of Nations" first defined utility in terms of 'Value in use'. This idea did not give any role to emotions in making a decision to buy. Which refers that a person may buy something lets say a book, as it has some use to him. It was left to Bentham (1789, 1970), however, to make utility a popular concept. He made the famous statement that "Nature has placed mankind under the governance of two sovereign masters, pain and pleasure" . His analysis then continued with a discussion of various types of pleasures (e.g., from wealth, skill, power, expectation, and relief) and pains (e.g., of desire, disappointment, regret, and expectation). The importance of understanding feelings was expressed even more forcefully by Jevons (1871, 1957). He used the term utility "to denote the abstract quality whereby an object serves our purposes". This object is then said to "afford pleasure or ward off pain" to its user. Like Bentham, he considered pleasure and pain to be "the ultimate objects of the Calculus of Economics" Since utility has an inherent quality of abstractness to it i.e related with feelings, the neoclassical economists completely severed the idea of utility from emotions. This gave rise to two different approaches attempting to analyze utility

The preference or indifference approach: It considered utility as a means to scale and compare an individuals preference for alternative bundles of goods .It was the first important shift from considering utility as Ordinal(

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Marshall) to considering it as Ordinal. This was the first systematic effort in the direction of separating the idea of utility form any subjective feelings and at the same time morphing it into a rank-able preference list.
i.e Such a relationship could state for a certain individual that a consumption bundle x (e.g., 5 loafs of bread and 3 bowls of ice-cream) is "at least as good" as a consumption bundle y (e.g., 4 loafs of bread and 4 bowls of ice-cream). Symbolically, this is
represented by x≿y. The standard interpretation of this approach does not allow any room
for feelings. As Varian (1992) put it: "A utility function is often a very convenient way to
describe preferences, but it should not be given any psychological interpretation"
The revealed preference approach: Samuelson, proposed as an alternative to the indifference approach, the idea that a consumer when makes a choice for a given good over others he makes a strong preference for it A consumption bundle x is “revealed preferred” to y if an individual chooses x and if both x and y are affordable by the individual. As Mas-Colell, Winston, and Green (1995) put it, a "theory of individual decision making need not be based on a process of introspection but can be given an entirely behavioral foundation

On observing, one can clearly trace the dominant role of emotions played in both these approaches , though they try hard to not give in to it. The revealed preference theory was the first consumer behavior approach which paved the path of consumer decision making towards behavioral underpinnings from introspective underpinnings. the large spectrum of emotions that may possibly be at work in consumer decisions makings was identified with this approach, so to say, which further was developed by the emerging field of Behavioural economics.

BEHAVIOURAL ECONOMICS AND EMOTIONS

The field of behavioral economics blends ideas from psychology and economics, and it can provide valuable insight that individuals are not behaving in their own best interests. behavioral economics shows that actual human beings do not act that way. People have limited cognitive abilities and a great deal of trouble exercising self-control. People often make choices that bear a mixed relationship to their own preference (happiness). They tend to choose the option that has the greatest immediate appeal at the cost of long-term happiness, such as taking drugs or overeating. Notable individuals in the study of behavioral economics are Nobel laureates Gary Becker (motives, consumer mistakes; 1992), Herbert Simon (bounded rationality; 1978), Daniel Kahneman (illusion of validity, anchoring bias; 2002) and George Akerlof (procrastination; 2001).
Many seemingly noticeable but unrecognized consumer behavior patterns are studied under behavioural economics, to name a few, the bandwagon effect, which leads a person to buy something which is of no apparent value to him, just because others seem to possess it. Heuristics, capital market purchases such as stocks and bonds and the prisoners dilemma studied under the game theory are all examples of the intrinsic role of feelings in economic decisions. It is very interesting to note that behavioural economics actually studies a wide range of actual consumer behavior patterns and shows that more often than not humans tend to behave irrationally and the reason for this can be traced to some of the principles which are seen to be at work. To name a few:
Action- goals gap – people don’t actually do what they intend to do.
Decision paralysis – When confronted with too many decisions they take the easiest available option, which is essentially no decision at all
Availability bias – people tend to recall the most recent available alternative rather than all the possible ones and tend to choose that.
Disposition effect- people tend to hold loss making investments for longer than what they should be.
Endowment effect- People overvalue what they own
Goal gradient theory- People tend to work harder as the goal nears
Herding – People tend to do just what others are doing (demonstration effect)
Mental Accounting- People categorize money differently depending from where it is coming and being spent
Loss aversion – People try to prevent losses more than they work for gains.
Opportunity cost neglect – People tend to ignore what they are giving up when they make choices.
These principles are just a handful which help in explaining how an individual may not always be making the most optimal decision going by rationality assumption.

TYPES OF EMOTIONS AND THEIR RELEVANCE IN DECISION MAKING

Going on these lines, economic theory has tried to study the effects of emotions by categorizing them in two types : “Expected emotion “ and “Immediate emotions” (Loewenstein, Weber, Hsee, & Welch, 2001; Loewenstein & Lerner, 2003).
Expected emotions are those that are anticipated to occur as a result of the outcomes associated with different possible courses of action. Immediate emotions, by contrast, are experienced at the moment of choice and fall into one of two categories. “Integral” emotions, which are experienced when the choice is made and

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"Incidental" emotions are also experienced at the moment of choice, but arise from dispositional or situational sources objectively unrelated to the task at hand.
The role of expected emotions is incorporated into economic decision making as it is a natural and rational response of a consumer to weigh the benefits and disadvantages before making a decision to buy any good. This is easily understood in consumer purchases of durables like a house, car, electronic gadgets, stocks or bonds and such costly / risk embedded purchases. Nevertheless, the study of immediate emotions which maybe either integral or incidental, are laregely ignored by pure microeconomic framework in the role that it plays in consumer decision making. One possible reason for this, is that integral or incidental emotions cannot be fully justified under the Utility maximizing rational behavior assumption. Eg I buy an icecream over chocolate because I may prefer one more over the other, or perhaps I make the decision on the spur of moment as I see others buying it in the shop. Market activities in form of advertising, sales and consumer capturing, specially for consumer non durable segment like, food industry rely very heavily on affecting the consumer's immediate emotions. This is seen in the nature of adverstisments flashed, making use of one day sales, or season's end discounts, buy one get two off sale, etc. Eg "One-day-only" sales, for example, are probably effective because they make consumers think that they will regret not seizing the opportunity. Marketers also attempt to capitalize on immediate emotions—for example, charitable organizations that make potential. donors feel guilty about what they squander their money on while less fortunate people starve. With the online, and social networking platforms systematically taking over the traditional
shopping experience, it becomes ever so important to judge the role of immediate emotions in consumer behavior. Eg Consumers are likely to make non relevant and undue purchases of goods when the goods are 'just a click away', as also the payment of it. We all have fallen prey to Amazon far often than we thought we would.
In this context, behavioural economics has tried to fill the gap between the role and type of emotions that pure microeconomics studied and the way a real life consumer feels and behaves.

CONCLUSION

The need for integrating a clear, unambiguous role of all types of emotions in economic decision making is vast, complex and a mammoth task but the changes in consumer behavior patterns in purchase of all types of goods and services have pointed to more holistic approach to study decision making in economics by involving the role of emotions. This becomes even more pertinent with not just consumer purchase patterns changing, but also the revolutionary changes happening in sales and marketing.

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