The Impact of Economic Theories on the Economic Behavior of Teacher Education Students[1]

Anastasia Oloieru[2]

Abstract: Currently economics is regarded as a moral science due to the expansion of phenomena such as excessive consumption, irrationality, etc. Despite the fact that classical economics revolves around homo economicus researchers in the field of behavioral economics have noted that people are not rational beings and systematically make certain errors. The article defines economic behavior, explains the differences between rational and irrational behavior and characterizes the behavioral errors that ordinary people make in real life. Also it is highlighted how the knowledge of economic theories helps future specialists in education to achieve high professional performance and personal development.

Keywords: economic behavior; rational; irrational; behavioral anomalies; behavioral economics; nudge

Economics is not only about money, needs, expenses or investments but about man and human behavior. Despite the fact that currently we are quite informed about the limited nature of resources, about problems of global value including ensuring and maintaining peace, poverty, conservation of flora and fauna, etc. we know what is the role of a consumer and what his rights entail, we use cashless payment methods, and even venture into cryptocurrencies, yet we continue to be irresponsible, immature and irrational in many aspects of life.

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[2] Associate Professor, State Pedagogical University "Ion Creanga" from Chisinau, Republic of Moldova, Address: str. Ion Creangă, no. 1, MD-2069, Chisinau, Republic of Moldova, Corresponding author: oloieru@list.ru.

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Classical economic theory revolves around the idea of homo economicus and society is the sum of rational, ingenious and free individuals, not forced by anyone, capable of increasing the wealth of a nation. In this context, people do not act on whim, they compare costs and benefits, learn from their own experience and do not repeat mistakes made before (Oloieru, 2018, p. 24).

Homo economicus is a theoretical model of a person who always has complete information, decides correctly, calculates personal benefit, is not influenced by emotions, contributes to personal and societal well-being. The reality is that ordinary people are not like that. They don't always make the best decisions, repeat the same mistakes over and over again, don't know how to calculate risks and perform emotionally motivated economic operations (Covas, 2015, p. 40).

Historically, several titans of economic science including Adam Smith, Jeremy Bentham, John Maynard Keynes, Herbert Simon, etc. identified some psychological laws through which they showed the limits of the homo economicus model.

For example, *Adam Smith* in *The Theory of Moral Sentiments* describes principles of human nature that can be used to analyze social institutions and behavior. He wondered how people can make moral judgments, especially about themselves, how they can reflect on the nature and the source of the right behavior, in short, how they can arrive at the general harmonization of such views (Maftei, 2006, pp. 85-92).

John Maynard Keynes defined three universal psychological laws, *the marginal propensity to consume,* according to which when income increases, consumption also increases, but not by the same amount as income; *the marginal propensity* for savings, which shows that not all savings turn into investments, people are being tempted to save, and the *preference for liquidity*, according to which the desire of individuals is to keep their money in liquid form, i.e. in cash.

Herbert Simon promoted the reunification of psychology and economics. He supported the theory based on algorithms, which incorporates the cognitive mechanisms of the individual and recognized the bounded rationality of homo economicus but promoted interesting ways to study human behavior mathematically (Covas, 2015, p. 41).

However, in 1979 the researchers in the field of cognitive psychology Daniel Kahneman and Amos Tversky published an article in which they presented an experimental study on the assumption of risk on conditions of gain or loss, thus they criticized the theoretical model homo economicus. Later, economists Richard Thaler and Hersh Shefrin continued the research and introduced the theory of the saving model the "behavioral life cycle", which essentially refers to the fact that people prefer immediate gratifications rather than long-term balanced consumption and spending (Diacon & Donici, 2013, pp. 23-28). They also outlined the differences between rational and irrational behavior and characterized the behavioral errors that ordinary people commit in real life. Thanks to the mentioned scientists, economics became an experimental science, which still uses research tools borrowed from psychology and pedagogy.

Thus, a new field appeared in economic sciences located at the intersection of psychology and economics called behavioral economics. Behavioral economics does not aim to completely reject the neoclassical approach but to adapt its basic principles to the realities imposed by complex human nature. This is the reason why it appeals not only to knowledge from psychology but also from other social sciences that study the individual in his multiple forms of manifestation. Behavioral economics explains why individuals frequently make irrational choices [Ibidem] and make mistakes systematically.

But to understand what choices can be called irrational, it is necessary to examine what is meant by rational economic behavior.

According to Pieron H.'s vision, **economic behavior** designates the way of being and acting of man representing an objective manifestation of all human activity. Economic behavior means that given different situations, people choose the economic alternative that seems to be the best, because it involves the lowest cost and the highest benefit in relation to any existing alternative (Oloieru, 2020, p. 23). Classical economic theory has as a point of reference the fact that people have rational economic behavior. Rationality is formal and concerns two important aspects: preferences and representations.

In this order of ideas the preferences of a rational man are structured in the following way:

- They are complete and not antagonistic (e.g. if my lifestyle is healthy, I will not eat Fast Food);

- They are not transitory/circular (a rational person cannot like one product more than another, he has his own opinion about any product);

- They are independent of the context (the choice of the rational consumer should not depend on the order of the products, the emotions experienced, the seller's personality etc.)

Representations imply our opinion of the world around us. Thus, economic science assumes that rational man will make choices taking into account the theory of expected utility. (E.g. If I propose you to choose 100 lei with 100% probability or 500 lei with 30% probability, what will you choose? The rational person will choose the second option because the expected utility in this case will be higher 500*0,3 =150; rather than in the first case 100*1=100).

Most ordinary people, however, choose the first option, because the security they want to have is more than a simple mathematical calculation of expected utility. This is one of the concepts with which behavioral economics operates, with emphasis on choice under conditions of uncertainty and/or risk. Another finding made by behavioral economists is that people make errors systematically and predictably. That is, in a similar situation in the future, the individual will commit the same behavioral error. This is how humans act, ordinary people who have failed to capitalize on their economic potential. Therefore, a set of elementary economic skills are strictly necessary and currently useful for organizing personal life and professional activity. And for modeling one's own economic behavior towards a rational vector, we promote the development of economic interest and motivation; applying economic theory in practice and taking responsibility for one's own well-being and happiness.

Thus, we propose further the description of the most frequent behavioral errors, which ordinary people commit in their daily life.

1. *People experience various states, which behavioral economists have called warm states* (euphoria, infatuation, aggression, etc.) and cold states (equilibrium, calmness, optimism, interest, etc.). It has been found that if the person makes decisions under the influence of a warm state, it is considered a wrong decision, when he restores his emotional balance. Fortunately, the legislation of the Republic of Moldova, but also of other countries, offers periods during which the consumer can review his decision, (e.g. the right of the consumer to return the product);

2. *Loss aversion*. This anomaly assumes that people value losses and gains differently. That is, a dollar lost or spent is worth twice as much as a dollar earned. This also explains the rigidity of people to make investments, or the investment implies an expense in the present for some income in the future.

3. *The ownership effect*, if you use an object, even if it is not yours, you begin to value it more than others. This explains the impact of marketing strategies such as test drives.

4. *The optimist effect*. It is a behavioral pattern by which people consider a negative situation of loss, insolvency, fines and penalties etc., it might happen to anyone but not them.

5. *Mental accounting*. That anomaly implies that people behave differently with money from different sources. Money that is earned easily, without effort, as a rule, is not capitalized and easily spent, and those amounts obtained after considerable effort are saved (Kapelushnikov, 2013).

Based on the theoretical and practical aspects identified by behavioral economists, based on highlighting the behavioral errors that people systematically commit, public authorities have come to the conclusion that it is necessary to help citizens to make rational decisions. Thus, Nobel laureate Richard Thaler and Cass SUNSTEIN proposed the Nudge policy. The authors define a 'nudge' as *anything that alters people's predictable behavior without forbidding any option and without significantly altering financial incentives. To be considered a simple nudge, that choice must be easily avoidable, a nudge having no feature of obligation* (Sunstein & Thaler, 2016, p. 432).

Nudging envisages the creation of "choice architectures" that highlight the choice considered beneficial for the individual and/or the group without changing either the number or the nature of the available options. The idea is to prompt the consumer or user to make a perceived better choice. The technique has three characteristics: the individual is given total freedom of choice, the implementation is easy and the intervention has a limited cost (Committee, 2016). In this vein, it is appropriate to present some examples that illustrate the success of the implementation of the Nudge Policy.

Example 1. Men's toilets are known to be very wet and dirty. In the airport of Amsterdam Schiphol, the authorities invented to place the image of an insect in the men's urinals. Thus, the men did not see the insect but the target and tried to be more careful. The result: a clean and tidy toilet with minimal resources (Sunstein & Thaler, 2016, p. 432).

Example 2. In some countries, where the road is in the form of serpentines, the authorities have started to draw a white line perpendicular to the road. Initially, the line was placed at a distance of 1000 meters, later at 900 meters, 800 meters, 700 meters, etc. These lines would start to flash in the eyes of the drivers as they thought they had accelerated too much and started to slow down. What is the expected result? Greater attention to traffic and fewer accidents (Sunstein & Thaler, 2016, p. 432).

Example 3: It is known that in school canteens the food is of the Swedish buffet type. School cafeteria managers in the US have tried to place fresh fruits and vegetables in the first positions i.e. at the beginning of the display cases. Thus, children started to consume more fruits and vegetables. The result is: a healthier and less obese society. Conclusion: People's choices depend on context and public authorities, school managers, parents, etc.; they can become decision-making architects for the younger generation (Sunstein & Thaler, 2016, p. 432).

Currently, nudge techniques are attracting increasing interest from public authorities in some countries as they present two major advantages: they do not restrict individual freedoms and they have a limited cost. They can therefore represent a complementary tool being a part of public policies that intend to "make responsible" individual behaviors in terms of health, environment, personal and professional development etc.

Another question of interest in this article is what influence can the knowledge of economic theories have in shaping the behavior of Teacher Education Students towards rationality?

The first argument in favor of knowledge of economic theories takes into account the fact that all the researches mentioned and carried out by behavioral economists, through which they recorded a multitude of behavioral anomalies, were carried out on a sample made up of students. Therefore, students are human.

Another argument refers to other researches carried out within the *Project Foundation of the Professionalization Paradigm of Teaching Staff in the Context of Societal Challenges*, which allowed us to find a lower level of economic culture among Teacher Education Students. Students often do not find answers to the complex questions of the contemporary economy, they cannot determine the opportunities for their participation in economic processes, which has a negative impact on their professional and personal development (Oloieru, 2022).

At the same time, currently any person holds a multitude of roles: consumer, taxpayer, debtor (if he took a loan), etc., which we must learn to deal with. Therefore, a simple knowledge of some patterns that we have, will help us, at least, to postpone a serious decision, which will allow us to analyze more or ask for help from competent people.

Also, with the expansion of economic, financial, entrepreneurial, personal development education courses, etc. in the schools of the Republic of Moldova, future in- service teachers are challenged to know some contents regarding the economic culture of the personality, money and personal finances, savings and investments, taxes and fees, entrepreneurship etc., which will allow them to carry out the intended educational approach qualitatively.

In conclusion, we note that economic education is a field of perspective, which must be discovered consciously and systematically. Just as there are rules for physical health, so there are laws for financial health. And since economics studies human behavior these laws must be known and applied. Richard Thaler mentions that inside every human is an econ, and the task of parents, teachers, people with decision-making power, etc. is to discover this econ in himself and in the younger generation.

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