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BEHAVIORAL ECONOMICS: TO BUY OR NOT TO BUY?

Psychology enabled marketers to realize that consumers did not always act or react as marketing theory would suggest. Buyersshow less predictable behavior and their preferences are changing and becoming highly diversified.

When economists make their models, they generally assume that people are rational and predictable. But actually people are impulsive, shortsighted, and very often irrational. Behavioral economics seeks to understand when and why people behave differently than economic models suggest.

Behavioral economics is a subfield of economics that focuses on the psychological, social, and emotional factors that influence decision-making. That's not necessarily new as in 1759 Adam Smith discussed it in"*The Theory of moral Sentiments".*But generations of economists ignore many irrational elements of decision making since it makes it harder to predict human behavior. But in the last few decades, behavioral economics has made a comeback. **Richard H. Thaler** got the Nobel Prize for his contributions to this field of study. He has incorporated psychologically realistic assumptions into analyses of economic decision-making. Moreover, by exploring the consequences of *limited rationality, social preferences*, and *lack of self-control*, he has shown how these features systematically affect consumer buying decisions.

Behavioral economics can be applied to marketing, finance, political science, and manyother fields.This fact explainsour interest inthe topic.

But in most cases people seem to be rational. When the price falls for a product, people have a tendency to buy more, so **the Law of demand holds true**. Economists also accept that there's bounded rationality. Limits on information, time, and their abilities might prevent people from seeking out the best possible outcome.

For example, if the price for ice-cream is really low consumers might think that the ice-cream tastes horrible. The problem here may be**lack of information**. In this case the Law of demand doesn't hold true. Classical economics assumes that consumers know or at least can quickly access information about prices and quality, but in reality they often don't. **Prices** do send a lot of signals, and there's even science on how prices change perception.

However, people's preferences depend on how the options are presented. Psychologists call this type of cognitive bias **the Framing Effect**. Would you rather eat beef that's 75% fat free or 25% fat. Would you support a law named the "Improve our Schools Act" or one named the "Raise our Taxes Act"? Each of these scenarios can be framed in the ways that influence your decision.

Businesses have known about the psychology of decision making for a long time. For example, a TV priced at 499 dollars seems like a better deal than one priced at 500 dollars. This is called **psychological pricing**.

Behavioral economists also like to talk about **nudge theory.** Nudges encourage people to act a certain way, without actually changing the choices that are available to them. Healthy eating and fighting childhood obesity is a priority not only in Belarus, but also in many other countries and policy makers have offereda whole range of solutions, e.g. from banning soda and ketchup in schools to running media campaigns promoting healthy eating. Behavioral economists approached the problem a little differently. They wanted to see if they could get children to eat healthier by rearranging school cafeterias. They put healthier food like fruit and vegetables on eye-level shelves and less healthy food, like desserts, in less convenient places. **Classical economic theory** suggests that this idea won't work, but students, for example, turn out to choose the healthier food. It proves the fact that nudge theory works and, moreover, it changestogether with the implementation of the public policy.

There's something else behavioral economists look at: **risk**. Behavioral economists have studied that people strongly want to avoid losing. In general, they are more affected by lossesthan by pleasure they receive from purchases.

So, behavioral economics has a lot to tell us. It gives us a realistic view of how consumers actually behave and helps us better understand the way we make our buying decisions.

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EMPATHY AS A TOOL FOR EFFECTIVE LEADERSHIP

In the modern world, one of the main priorities for many companies is to go beyond traditional strategies in the development of management and recruitment to create leaders who can move the company forward. And this is not surprising, because an ineffective leader can lead a company to great losses. Human resources specialists and company