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HOW BEHAVIOURAL ECONOMICS IS SHAPING OUR LIVES

Economic theory suggests that people are rational, predictable and make their choices relying on rational expectations. People's decisions are the result of a careful weighing of costs and benefits. If it were true, we would always make optimal decisions. However, in real life there are many examples illustrating irrational behaviour of people and their decisions are not always optimal.

A person playing billiards hardly considers geometry and physics laws as well as we hardly use statistics and economic principles making economic decisions. People are not always self-interested, not always maximize benefits and minimize costs and have stable preferences. They make decisions with lack of information, they are influenced by other people, social norms, emotional state, changing preferences, often in response to changes in context. People's behaviour is the subject matter of behavioural economics.

Behavioural economics (BE) is economics based on life practice (experience), which involves irrationality, emotions, social standards, behavioural stereotypes. Irrationality is regular, predictable and repetitive which allows to analyse it and apply scientific methods of studying. Behavioural economics tries to search and understand when and why people behave differently than economic models would suggest.

Having studied the repetitive character of people's behaviour, the scientists have developed a number of consistent behaviour patterns:

— *The Importance of Feedback highlights experience, good news, and prompt feedback as key factors that enable people to make good decisions.*

— Loss Aversion underlines the idea that people are strongly inclined to avoid losing. Losses are more painful than gains bringing pleasure.

— Pain of Paying means that people don't like to spend money. We experience pain of paying, because we are loss averse.

— Sticking to Commitments are used as a nudge to make people willing to change their behaviour.

— Herd Effect is evident when people do what others are doing instead of using their own information or making independent decisions.

— Procrastination shows that people are short-sighted and often put off their decisions, which may be partly due to inertia.

— Reciprocity is a social norm that involves exchanges between people — responding to someone’s action with an equivalent action. Reciprocity, empathy, and other actions toward people are strong motivators in decision-making.

— Salience Concept means that information that stands out or seems relevant is more likely to affect our thinking and actions

BE is now applied in more and more fields like marketing, finance, public policy, and healthcare.

For example, *The HelloWallet* is an online platform which aggregates a user’s financial accounts into a single platform with the goal of improving customers’ immediate and long term financial health using the research findings of the behavioural sciences.

Belarusian companies also use peculiarities of our behaviour. МТБАНК offers its clients cash-back credit card “Халіва”. This service based on patterns of behaviour is already well known in western countries. МТБАНК uses the same patterns in our country and the service has become very popular. This example proves that BE concepts could be applied to different countries despite cultural conditions.

Behavioural economics is also applicable to a larger scale, such as public policies:

— USA have developed The ‘*Save More Tomorrow*’ program, aimed at helping employees save enough money for their retirement.

— The Government of Ontario investigated whether the behavioural science could motivate more of its citizens to sign up to the ‘organ donation register’.

— The Ministry of Manpower in Singapore wanted to test whether a “nudge” could make more employers pay their levy promptly, avoid penalties for late payment, and reduce the resources spent to follow-up on the late payments.

To sum up, behavioural economics is making a significant difference to our everyday lives, ranging from helping us make better choices in finance and healthcare, to guiding us to work more effectively, to influencing how we shop and nudging us to be more generous. Successfully conducted programmes based on BE knowledge can nationally increase living standards. However, some people consider such interventions unethical, since they can lead to unconscious changes in behaviour, so that people would do what they are told, not what they want. The issue is rather controversial and is open for discussion.