

Секція: Економічна Теорія

FEATURES OF CUSTOMER'S IRRATIONAL BEHAVIOR

НІЛОВА Н. М.

доцент кафедри теоретичної і прикладної економіки

Українська академія банківської справи

Національного банку України

м. Суми, Україна

МАРТИНЕНКО К. О.

Студент 4го курсу

Українська академія банківської справи

Національного банку України

м. Суми, Україна

For years, economics was based on the assumption that the behavior of both humans and companies is rational. This does not mean that they would consider all the possible options, and it does not mean that they actually know what they do. But for an economist, a person always tries to maximize his utility in every single case. During the recent period, it was shown that one's behavior is possible to describe with the help of rationality outcome. In this case, rationality means that people react on incentives. For example, if the price for the product increases (and the price is not always money), the product will be purchased less, and so on.

However, in 2003, Daniel Kahneman was awarded the Nobel Prize for showing that humans are not always rational. He and his colleague, Amos Tversky, not only showed the fact that solutions are not always rational, but also explained why we accept them. In the course of their work they realized that people when making decisions are driven by emotions, and it is not the work of the brain. Also an interesting regularity is revealed that people are often afraid of risk, even when it is

justified. In many economic situations, most people prefer to abandon the possible loss of money even ,when in front of them there is the most advantageous position. But as it turns out the sense of loss is stronger than the sense of the acquisition. Trying to explain that at the time the decision is incomprehensible to us, we overestimate the probability of loss and try to risk less than it should be. Moreover as the result of the research, it was found out that the human brain is accustomed to act stereotypically. When a person enters into short-term streak of luck, he begins to feel that it is a part of the long-term trend. And if, for example, a confluence of favorable circumstances that brought the money to the investor is repeated, the dopamine is released into the blood, which causes a positive reaction to these events in the brain. It means that , if you meet with the phenomenon for the second time, you will expect it to happen for the third time too. For example, if you hear the forecast from the marketer,you follow all the advice and make a profit, the next time you will listen to forecast from the marketer, then you will fall under the effect of dopamine and do everything he says just because you will be in a good mood . As a result, a whole new field of research appeared – **neuroeconomics**. As this name indicates, it explores the functioning of the human brain at the time of economic decision-making

Since this field is young, there are lots of new areas for the research. Many simple things can be improved with the help of neuroeconomics. One really interesting area is marketing.As we know, marketing - is a comprehensive system of production and realization , focused on the needs of specific customers and getting profit from market research. With the help of the neuroeconomics, it becomes possible to increase purchasing of some goods and decrease the demand on others. It can help commercial business reach its main goal(revenue). Obviously ,it can increase gross national income. We know,how it is important gross national income for the standard of living and in the economy in the whole world. So maybe, it is the biggest step in the history of economy.

Previously, in order to track the potential consumer's response to new goods, traditional market research relied on questionnaires and target-groups. These tools have their advantages, but also some disadvantages: people do not always say what they really think. In reality, they are trying to guess what others would like to hear

from them. And this is not the only reason. According to Gregory Burns (Emory University of Atlanta), subconsciousness plays an important role in the decision making. As Psychology shows, people cannot always motivate their choices.

While sometimes it is difficult to explain the human behavior, it becomes easier to explain it with the help of neuroeconomics. The main task is to get the covered information directly from the brain, without questioning the person. For example, The brain has a feature - the attachment to the numbers and comparison of the numbers next to the original. This trick is used by many realtors when they first show a potential buyer the most expensive house and then all next buildings seem to be not too expensive. The buyer will constantly compare their cost with the price of the first house. If you want to avoid this problem, you need to elude numbers. The legendary investor is Warren Buffett, who analyzes the attractiveness of the investment without knowing prices. "When you see the price, you automatically fall under its influence," - said the investor. Also we must not forget about some research which show us that if we do things and make decisions, it is not because we need something of value to the outside world, it just activates certain neurons in our brain. And the value of an object and any behavior encoded therein. We make decisions and act in order to stimulate these neurons. Our brain is looking for what it is more stimulating. Simultaneously psychologists say that people draw familiar things. For example, if you believe that any country, market, industry or shares in a company you are familiar, then you have positive emotions and unconscious attachment to these things. Because of this attachment more than 5 million Americans placed more than 60% of their retirement savings in stocks by companies in which they work in spite of the fact that almost all analysts recommend not to invest more than 5%. The illusion of familiar things is a serious threat to the investor. The methodology that can be used to recording the reaction, Functional magnetic resonance imaging (fMRI), emerged / was developed ten years ago. It is a method for scanning the brain, and it determines the activity of the parts to change in circulation.

As a matter of fact that Paul Zak, director of the Center neuroeconomics studied at Claremont Graduate University, in 2005-2007, conducted experiments, which gave the reason to be called oxytocin secreted by our bodies «hormone of nobility

and generosity». In the business game, whose members were divided among themselves the role of investors and bankers, Zak and his colleagues found that when a person receive a signal of trust (money), he raised the level of oxytocin. At the same time, the high concentration of the hormone leads to the appearance of generosity. Thus, one person infects other by generosity, and distribution of oxytocin takes on the character of the epidemic. There is no coincidence, says Zak, since 1954, the aggregate amount of donations that make the residents of the United States for the year increased by 187%. To test the hypothesis, the scientists introduced an artificial oxytocin to some participants in the game, and to others - a placebo. The results exceeded all expectations, stuffed with "hormone generosity" guinea gave 80% to the game more money than the "clean" players. According to Zack, "specific gravity" of oxytocin in humanity grows annually by 1%. «Business schools» teach people to be self-centered, but they do not realize that it is contrary to our social nature, thanks to which we have survived among selfish and wild animals. The Part of the brain which oxytocin receptive is more ancient than the one that is responsible for the greed - says Zack. - Gordon Gekko of "Wall Street" was wrong in stating that greed is good. Most people are exposed to oxytocin: the more money you give, the more you get in return. Also, we can find this version in the theory of feng shui. Only 2% of our subjects show strong independence from the hormone. This is just 2% of a so-called sociopaths, they turned off «hormone generosity».

In conclusion, we can say that the research in this area, in closest future, can help us to create goods with high demand. But in long-term, neuroeconomics can give us a lot of information for modeling economic models that explain inflation, unemployment and economic growth.

Література

1. Asch S. Effects of group pressure upon the modification and distortion of judgments // *Groups, Leadership and Men Research in Human Relations* / Ed. H. Guetzkow, Pittsburgh: Carnegie Press, 1951. P. 177–190.
2. Glimcher P. W. and Rustichini A. Neuroeconomics: the consilience of brain and decision // *Science*. 2004. № 306. P. 447–452.
3. Greene J. D., Sommerville R. B., Nystrom L. E., Darley J. M. and Cohen J. D. An fMRI investigation of emotional engagement in moral judgment // *Science*. 2001. № 293. P. 2105–2108
4. Kahneman D. A perspective on judgment and choice: mapping bounded rationality // *American Psychologist*. 2003. № 58. P. 697–720.
5. Klucharev V., Hytonen K., Rijpkema M., Smidts A. and Fernandez G. Reinforcement learning signal predicts social conformity // *Neuron*. 2009. № 61. P. 140–151
6. Rangel A., Camerer C. and Montague P.R. A framework for studying the neurobiology of value-based decision making // *Nature Reviews Neuroscience*. 2008. № 9. P. 545–556.
7. Rilling J. K., King-Casas B. and Sanfey A. G. The neurobiology of social decision-making // *Current Opinion in Neurobiology*. 2008. № 18. P. 159–165.
8. Sugrue L. P., Corrado G. S., and Newsome W. T. Choosing the greater of two goods: neural currencies for valuation and decision making // *Nature Reviews Neuroscience*. 2005. № 6. P. 363–375
9. Tom S. M., Fox C. R., Trepel C. and Poldrack R. A. The neural basis of loss aversion in decision-making under risk // *Science*. 2007. № 315. P. 515–518