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Behavioral Economics: Economics as a Psychological Discipline

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Abstract: By incorporating psychological reality into economic models, behavioral economics questions the fundamental tenets of conventional economics. It looks at the underlying ways that social dynamics, human emotions, cognitive limits, and institutional biases influence economic choices and results. Empirically observed behavior is consistently not predicted by traditional economic models. They disregard the widespread impact of social preferences, context-dependent preferences, limited self-control, and flawed belief construction. Particularly in intricate contemporary contexts and the reaction to policy interventions, this gap restricts the explanatory capacity of classical theory and its capacity to guide successful policy. This study examines the theoretical contributions of prominent behavioral economics and related scholars and synthesizes results from a large body of empirical research. It critically analyzes how real-world phenomena deviate from accepted theoretical predictions. Human economic behavior is invariably different from that of a self-interested, perfectly rational "Economic Man." Among the significant findings are beliefs and preferences are subject to cognitive biases, context-driven, and unstable; Decisions are heavily influenced by social preferences; People have limited self-control and differ in how conscious they are of their biases; These psychological and social factors have a profound impact on market outcomes and agent behaviors. A more practical basis for comprehending economic phenomena is offered by behavioral economics, which successfully explains consistent departures from traditional forecasts.

Keywords: *Human Behavior, State Behavior, Traditional Economics, Behavioral Economics. Traditional Economics, Sociology, Psychology.*

Introduction

It is suggested that behavioral economics be studied as a new, autonomous academic field, but it also discloses the substance of a relatively new analytical orientation in the evolution of economic research in recent decades. A good theory is recognized to be the best for practice as it dictates how individuals, businesses, households, states, and their regions behave in the economic life of society, which is reflected in the outcomes of their economic endeavors. "The ideas of economists and political philosophers," wrote John Keynes [1], "both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist".

There are several different schools of modern economic thought. It encompasses many approaches to economic issues from various schools and viewpoints. However, it is challenging to choose between the suggestions of different schools since, despite their rational foundations, each school's theory only captures one of the actual characteristics of the economy. Since each scientific school asserts the universality of its theory while also reflecting, in essence, the disparate economic interests of various social groups or classes within society, the transition of scientific schools and the teaching of the core ideas of their theories actually takes place in a struggle.

Behavioral economics fundamentally enhances economic analysis by synthesizing psychological insights with economic theory to model actual human behavior more accurately than classical frameworks. Traditional models, reliant on assumptions of perfect rationality, stable preferences, and optimal information processing, systematically fail to predict empirically observed behavior. Individuals consistently contravene these assumptions due to bounded self-control, systematically biased belief formation, and profound social influences.

Empirical investigations - ranging from studies on classroom laptop distraction to organ donation default options - robustly document deviations from standard theoretical predictions. These deviations are not random noise but systematic, meaningful phenomena necessitating theoretical refinement. Consequently, behavioral economics seeks tractable modifications to classical models that preserve analytical utility while significantly enhancing predictive power and descriptive accuracy.

Method This study examines the theoretical contributions of prominent behavioral economics and allied experts and synthesizes results from a large body of empirical research. It critically analyzes how real-world occurrences deviate from accepted theoretical expectations.

Analysis of the latest research and publications. This research is reflected in works of scholars such as Kahneman D. [5], Lehrer J. [6], Greenspan A. [3], Abalkin L.I. [1], Vinokurov M.A. [2], Zhuravleva G.P. [4], Yuryev V.M. [7], alongside leading global behavioral economists: Thaler R.H. [8], Camerer C.F. [9], Shiller R.J. [10], Loewenstein G. [11], Fehr E. etc.

Objectives of the research: to provide a sense of how the advancements in psychology research connect with contemporary economics; demonstrate the function of experiments in contemporary economics, the potential for incorporating the discovered human behavior patterns into economic theory, and a number of real-world applications of behavioral theory.

Discussion. The evolving economic landscape of the twenty-first century is typified by qualitative shifts in the public's perception of the dynamics of social, spiritual, and economic activities. The world as

seen by science is evolving. Furthermore, the world is changing more quickly than our ability to comprehend it. Nowadays, the entire world—including Uzbekistan—is going through a unique time of upheaval and reconstruction, during which time some unstudied but crucial trends for economic growth are emerging (such as globalisation, computerisation, technological explosion, economic system transformation, environmental and economic security, etc.). Answering the question of how the economic world is structured has always been the primary goal of economic study. However, because the world has changed, modern economic science now has to come up with a new way to explain the world. Regretfully, this issue is not resolved by earlier economic schools. Not only Asian, but also the most famous Western scientists and economists make serious claims against classical political economy and modern "Economics". How can one not recall the famous statement of Academician L.I. Abalkin that in science there is not and cannot be a monopoly of any scientific school on absolute truth [1].

The primary need for experts in the automated and information-driven modern economy is the capacity for not just innovative thinking but also for informal activities, remarkable decisions and actions, and inventions. First in this instance, theoretical knowledge aids in the development of the thinking apparatus. Learning to think on one's own by analyzing different ideas, teachings, and opinions from scientific thinkers becomes the main goal of studying and teaching economics.

Behaviorism dominated sociological study methods for a long period in the United States. Sociology, according to behaviorism (derived from the English behavior), is a behavioral science, or the study of human behavior. Behaviorism was founded by E. Thorndike, D. Watson, and B. Skinner. Behaviorists contend that stimuli and reactions are the basis of all human activity. You may establish specific reactions by altering the stimulus. Human behavior may therefore be controlled to a significant extent. Sociology was seen by behaviorists as the development of a discipline for human resource management.

Incorporating psychological realism into economic theory, behavioral economics recognizes that human utility functions and beliefs are often unstable, susceptible to noise, and influenced by social and environmental factors. Preferences and beliefs are dynamic and essentially context-driven, as demonstrated by a plethora of surveys and experimental findings. This makes it necessary to create adaptable economic models that can account for this innate complexity.

One important distinction in this framework is people's awareness of their own cognitive biases, namely the distinction between sophistication and naïveté. To reduce biases, sophisticated actors strategically organize their choice environments and actively use commitment devices, aware of their limitations. Naïve people, on the other hand, are unable to predict future issues with self-control, which frequently exacerbates behavioral failures.

Results

These observations are highly applicable in the real world. Businesses deliberately take advantage of behavioral biases in marketing campaigns and product pricing. At the same time, policymakers can use this knowledge to create commitment tools and nudges that work. Such interventions specifically target biases like present bias and leverage social preferences, thereby enhancing individual and societal welfare.

The main finding is that combining sound psychological knowledge with economic theory is essential to achieving significant gains in economic well-being and wider social outcomes. The cold, logical calculations of costs and benefits that are typically assumed in standard models are not the only factors that influence human behavior, as this integrated perspective acknowledges.

The field of behavioral economics is a relatively recent academic subject and science. It is definitely multidisciplinary in character, straddling the boundaries of three sciences: economics, psychology, and sociology.

Behavioral economics cannot be disregarded nowadays due to the following reasons:

a. systematically repeats and grows more complex;
b. shapes the actions of various agents - from individuals and firms to markets and regions;
c. reveals the underlying motives of economic agents;
d. encompasses both the description and explanation of behavior.

Until recently, behavioral economics was considered by many to be a secondary science, optional - an appendage of adult traditional economics. Though there were always theoretical justifications for this, supporters of the latter nonetheless acknowledged that people occasionally act impulsively and unfairly. They maintained that because behaviorists—sociologists, psychologists, and economists—conduct their experiments in controlled settings without the primary regulator of rational behavior—the competitive environment of the market—their findings, no matter how intriguing, do not contradict rational models.

The global financial crisis has caused a significant upheaval in the status of orthodox economists. A. Greenspan [3] came clean in October 2008. The idea that people, businesses, and markets are inherently logical has fallen apart, and the associated risks to the economy and society's interests have been fully exposed. We are discussing the psychology of financial and economic conduct. The financial crisis abruptly brought these fields into the focus of economists and financial analysts, who had previously been on the outside of economic study.

In the United States, 20% of economics majors at the top colleges in the nation are currently pursuing behavioral economics. Daniel Kahneman, an American psychologist who worked in this subject and was awarded the Nobel Prize in 2002, contributed to the advancement of behavioral economics. Behavioral economists study how emotions, social dynamics, and psychological events affect economic decision-making.

Studies have indicated that individuals frequently make choices that are not optimal for them or blindly believe what economists believe is best for them. For instance, it is sense to begin retirement savings early in your employment. However, a lot of individuals don't, and studies reveal that people are scared of long-term savings. Numerous cognitive and affective factors seem to have a significant impact on investment decisions. The strict computations of financial markets, according to traditional economists, could not foster irrational conduct. The equilibrium of prices and indices can be swayed by irrational individuals, but prudent traders will always drive the price into the "market stall" and to levels that are economically reasonable.

This phantom law vanished after 2008. The idea that bankers act rationally, carefully consider their choices, and exclusively consider maximizing their own interests has been contested by behavioral economists, who frequently adopt a more pragmatic and empirical approach than economists who concentrate on officially recognized market models.

Methodical departures from rationality show that the fundamental presumptions of complete self-control, stable preferences, and perfect rationality are largely for analytical convenience and fall short in explaining empirical behavior. Practical instances of widespread poor self-control include decreased gym attendance and productivity losses brought on by digital distraction. Furthermore, it is shown that motivated reasoning skews belief updating in a variety of contexts, including politics and personal health, suggesting that cognition rarely follows strictly Bayesian principles.

The assumption of perfect Bayesian updating is challenged by imperfect belief formation, which turns out to be empirically unsupportable. Core economic models of learning are undermined by strong laboratory and field evidence showing that even among highly educated populations, systematic cognitive biases such as overconfidence and base-rate neglect, as well as widespread difficulties with probabilistic reasoning, exist.

The narrow self-interest hypothesis is directly contradicted by the fact that social preferences like fairness, reciprocity, altruism, and conformity to social norms inherently influence economic behavior.

Reputation management, peer conformity, and charitable giving are examples of behaviors that cannot be explained by models that ignore these forces. When people logically avoid acquiring information if the expected psychological cost outweighs the instrumental utility, motivated beliefs and strategic ignorance result. This phenomenon is glaringly demonstrated by the avoidance of genetic testing for diseases such as Huntington's disease, which goes against the traditional principle that greater knowledge always improves welfare.

The field must balance the important conflict between model tractability and psychological realism. The context-specific utility of classical simplifications is retained, but behavioral economics rigorously identifies psychologically grounded deviations with empirically significant consequences and parsimoniously incorporates them to develop models that achieve superior descriptive accuracy and predictive power.

Effective policy design is made possible by this theoretical development. Interventions that improve welfare are made easier when cognitive limitations are explicitly acknowledged: Targeted reminders resist forgetfulness (e.g., medication adherence prompts); commitment devices help with self-control issues (e.g., savings plans locking future contributions); and nudges structure choices through strategic defaults or simplified information. In many cases, these methods are more cost-effective than strict regulation or just financial incentives.

Conclusion

For economic theory to accurately understand human behavior and create policies that actually improve societal outcomes, psychological realism must be incorporated. Behavior economics offers the essential foundation for a more empirically based and influential economic science by recognizing that decisions involve emotional factors, social embeddedness, and cognitive limitations—going beyond objective cost-benefit analyses. Economic Man has been disproved. A behavioral altruist model, which has a unique perception of information and risk and a variable attitude toward things and the material world, has supplanted the model of an economic man, a rational egoist who prioritizes his own interests, wealth, income, and a stable attitude toward risk and discounting.

A new intellectual platform that shifts the focus from developing formalized models of rational individual behavior in various decision contexts to assessing them empirically and experimentally is behavioral economics, which is starting to gain traction in the scientific community.

This involves assessing the degree of consistency (or divergence) between traditional economic theory, the patterns and trends derived from it, and real-world economic activity facts.

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