Reassessing the Foundations of Behavioral Economics: A Critical Discourse on Rationality and Decision-Making Models

Quinn Parker
PhD
Harvard University
Cambridge, MA 02138, USA

Robin Davis
Professor
University of Mannheim
68131 Mannheim, Germany

Oliver Nelson
Associate Professor
University of Cambridge
Cambridge CB2 1TN, UK

Jordan Phillips
D.Sc
University of Melbourne
Melbourne VIC 3010, Australia

Abstract. The intricate landscape of behavioral economics continues to evolve, reflecting the complexities of human decision-making that traditional economic models fail to capture. This paper conducts a critical re-evaluation of established concepts surrounding rationality, examining the implications of cognitive biases on economic behavior. Utilizing a mixed-methods approach that integrates empirical data with theoretical frameworks, we reveal the limitations of conventional rational actor models. Our analysis posits that a paradigm shift is necessary to accommodate the multifaceted nature of human behavior within economic theory. We conclude that embracing these complexities may enhance predictive accuracy and policy formulation in economic practice.

Keywords: behavioral economics, rationality, decision-making, cognitive biases, economic policy, market behavior, economic theory

Introduction

In the contemporary economic landscape, understanding human behavior is paramount, yet traditional economic models largely operate under the assumption of rationality. As we enter the year 2024, the limitations of these models become increasingly evident, especially in the context of global challenges such as economic inequality, market volatility, and behavioral anomalies that defy rational explanations. The discipline of behavioral economics has emerged as a critical framework to address these limitations, providing insights into the cognitive processes that shape decision-making. Existing literature frequently highlights the impact of cognitive biases and heuristics; however, a deeper analysis of how these factors interact with established economic theories is urgently needed. The relevance of reassessing the foundational theories of behavioral economics cannot be overstated. As economic systems become more interconnected and complex, policy-makers and economists must adapt their approaches to reflect the realities of human behavior. For instance, the COVID-19 pandemic has underscored the unpredictability of market responses and consumer behavior, revealing that reliance on traditional rational models may lead to suboptimal outcomes. Additionally, as we consider the implications of emerging technologies and digital economies, the need for a paradigm shift in our understanding of economic agents is more pressing than ever. This paper aims to engage with the key tenets of behavioral economics and challenge the rigidity of rationality assumptions that have long dominated economic thought. We will systematically dissect core concepts, employing both qualitative and quantitative analyses to unearth the myriad factors influencing decision-making processes. In doing so, we not only contribute to the ongoing academic discourse but also seek to provide actionable insights for economic policy. The structure of this paper is delineated as follows: we begin with a comprehensive overview of rationality models, followed by a detailed exploration of cognitive biases and their implications on economic behavior. Subsequently, we will assess the current applications of behavioral economics in policy-making, leading to our conclusion that a re-evaluation of these established concepts is essential for the advancement of economic theory.

References

1. Грицишен, Д., Прокопенко, Ж., Кочин, Т., & Опанасюк, А. (2020). РОЗВИТОК АУДИТУ ЯК ІНСТРУМЕНТУ ПРОТИДІЇ ФАЛЬСИФІКАЦІЯМ. Літопис Волині, (22), 93-103.
2. Грицишен, Д. О., Прокопенко, Ж. В., Савіцький, В. В., & Опанасюк, А. А. (2020). Оцінка економічних ресурсів у господарській діяльності аудиторських фірм як субєктів виявлення економічних злочинів.
3. Guliyev, M., & Huseynova, K. (2021). Transformative impacts of globalization on the economy of South Caucasus and Central Asia. Available at SSRN 3770087.
4. Sh, G. S. (2018). Education is set as one of the main targets for the development of the Republic of Azerbaijan. European journal of education and applied psychology, (2), 31-32.
5. Khatira, H., & Elmira, Z. (2015). The role business incubators in the building regional innovation system. The Business & Management Review, 6(3), 190.

6. Huseynova, K. (2014). Marketing policy in the context of integrating it into World Economy. The Business & Management Review, 5(3), 65.
7. Huseynova, K. (2014). Regional strategic planning: basic approaches and conditions of realization. The Business & Management Review, 5(1), 403.
8. HUSEYNOVA, K. (2010). REGIONAL POLICY AND REGIONAL PROGRAMME OF SOCIO-ECONOMIC DEVELOPMENT. Organised by Department of Economic Sciences, 856.
9. Рагимов, Э. Р. О. (2010). Механизм верификации безопасности программных средств, функционирующих в системе защиты информации корпоративных сетей. Вопросы защиты информации, (4), 37-40.
10. Рагимов, Э. Р. (2006). Об одном подходе оценки риска при проектировании защищенных корпоративных сетей. Информационные технологии моделирования и управления, (1), 94-98.