Frontiers of Microeconomics

Student's Name

Institutional Affiliation

8-2 Discussion: Frontiers of Microeconomics

Studying behavioral economics should come first; then, we can develop economic models, whether visual, mathematical, or simulation-based.

Behavioral economics research examines how psychological concepts are applied to people's and organizations' economic decision-making processes. (Samson, 2022). In an ideal world, people would choose the decision that would result in the most significant number of advantages and happiness levels; unfortunately, this is not the case in the real world. Rationality is the aspect of conduct that should be examined with the utmost priority. Rationality is essential for making reasonable and logical judgments; nonetheless, people often make decisions based on impulses and feelings rather than rational considerations. It has also been proved via the sound choice theory that when people are confronted with alternatives in times of scarcity, they generally pick the one that favors their own needs and desires as individuals.

Another tendency to keep an eye out for is the reasons why individuals make illogical choices. Irrational choices result in behavior that does not reflect the predictions given by economic models when such decisions are implemented. The field of behavioral economics investigates the reasons why individuals make the choices they do. For instance, why do people choose a big coffee over a small one, or how much money are they willing to spend on an ice cream cone?

Another habit of checking is whether someone is making choices in their best interest. Behavioral economists demonstrate that cognitive bias, social factors, and emotional states influence individuals' preferences. When people act rashly and emotionally when they make judgments, economic models are sometimes rendered less effective or impossible to finish.

Peer Responses

In your responses, comment on at least two of your peers' posts and share an example of how non-rational human behavior can change an economic outcome.

Response 01

Hey Sam! You've made some compelling points about the importance of behavioral economics in understanding non-rational decision-making. It's fascinating how emotions and biases can lead to economic outcomes different from what traditional models predict. For instance, during the stock market crash in 2008, panic and fear drove many investors to sell their stocks at low prices, significantly worsening the market's downturn. This behavior starkly contrasts with the rational decision-making expected in economic models, highlighting how psychological factors can profoundly impact economic stability (Mankiw et al., 2021).

Response 02

I have addressed the given instructions in one response. Following these instructions, you can quickly write your peer responses to 8-2 Discussion without a hassle.

References

Samson, A. (2022). *An Introduction to Behavioral Economics*. BehavioralEconomics.Com | The BE Hub. https://www.behavioraleconomics.com/resources/introduction-behavioral-economics

Mandler, T., Sezen, B., Chen, J., & Özsomer, A. (2021). Performance consequences of marketing standardization/adaptation: A systematic literature review and future research agenda. *Journal of Business Research*, *125*, 416–435. https://doi.org/10.1016/j.jbusres.2020.12.023