



Research Letter

Behavioral Economics Insights to Covid-19 Pandemic

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ABSTRACT

The world has been facing a massive health crisis since the outbreak of COVID-19 in December 2019. This health crisis affected not only people's health and wellbeing it also affected people and governments in myriad aspects such as economically, socially, politically, and psychologically. During the pandemic, we saw people trying to purchase amounts of groceries they cannot consume, toilet paper herding people became memes around the world, and now we are discussing what vaccine is more trustworthy or whether to get vaccinated or not. Even though, this is a novel coronavirus disease the problems we have been facing are not new. Since there is nothing new under the sun, it is possible to shed light on the current problems via learning from the past. Therefore, in this study, first of all, a selection of literature significant to the pandemic and its during-effects and after-effects on people and governments are going to be examined, and secondly, various concepts from behavioral economics such as the halo effect, status quo bias, overconfidence, and herding behavior are going to be discussed in order to explain why people and institutions act irrationally. Lastly, it is going to be explained that how these concepts can be used to 'nudge' them and how these concepts can be useful for both people and the governments to fight the effects of the pandemic.

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1. Introduction

It does not seem like an exaggeration to make a comparison between a hurricane and a pandemic. People are stuck, there is nowhere to run, one can only prepare for it to the best of one's ability. Since you can only see the real damage after a hurricane, we will be able to understand the real economic, sociologic, and psychological damages after the COVID-19 pandemic is over.

COVID-19, the novel coronavirus, was first identified in China in December 2019 and was declared a pandemic in March 2020 by the World Health Organization. After living almost 2 years with a pandemic as of today there are over 261 million confirmed cases and over 5.2 million deaths around the world.

It is a fact that Behavioral Economics has attracted increasingly considerable attention since the 1970s. While Traditional Economics (Neo-Classical Economics) ignores the human factor in economic affairs, Behavioral Economics, on the other hand, factors in the human behavior to economic affairs. In Traditional Economics humans are assumed as rational beings. Unlike Traditional Economics Behavioral Economics accepts the fact that human beings are irrational and emotional beings; and, these characteristics of human beings can be persuaded since their irrationality is predictable.

Our minds, according to Daniel Kahneman (2011), use two systems: the first is for thinking quickly and making quick decisions, or as Gladwell (2005) puts it "in the blink of an eye" and the second is for thinking slowly and rationally. System I is fast and needs less effort, while System II is deliberate and rational, and thus slow. As a result, it works automatically without thinking and most importantly unconsciously. When it comes to skills like biking or swimming, we use System I to make decisions. Most of our eating, drinking, and spending decisions are made by System I. Our minds, on the other hand, use System II when

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performing tasks that need more concentration and effort. Therefore, the decisions we made using System II are rational, controlled, and conscious. If, for example, say, we are determining how to behave in a social setting, processing information, studying for a test, or making a calculation we use System II. However, only %2 of our decisions are made by System II.

During the pandemic this past year people's irrational behaviors became more apparent and observable. When the lockdowns have started, first, people have started to purchase serious amounts of food that cannot be consumed in a reasonable time period and other merchandises such as toilet paper.

The purpose of this study is to investigate Behavioral Economics principles that are useful to understand human behavior during this health crisis and to present a helpful perspective for both policymakers and the public in order to overcome several stages of the pandemic.

2. Halo Effect Phenomenon

The long-recognized term 'Halo Effect' is first used by psychologist Edward Thorndike in 1920. In his study, he discovers that professional people cannot rate their co-workers or subordinates independent of their physical appearances. He does this experiment for the military and finds a correlation between physical appearance and other qualities of the soldiers such as intelligence, loyalty, dependability very high (Thorndike, 1920). R. Nisbett and T. D. Wilson (1977) define the halo effect as an influence of a global evaluation. For example, if we like a person, even if it is ambiguous that she would act ethically or nicely in the future we tend to assume that she will.

During the pandemic, there have been new habits were needed to be adapted to our lives such as wearing masks, using hand sanitizers more than before, or for people who never used them before they needed to start to use them. Since these kinds of products were not commonly in-use before the pandemic, at first people needed to be 'nudged' to adapt these methods of self-sanitation and self-prevention. In order to accomplish this, public figures were used in public ads teaching people how to avoid catching the virus by using simple methods such as washing hands, wearing masks, and social distancing, etc. Political leaders also wore masks and minded social distancing at first. Seeing from the people they like and trust has an influence on people in order to adapt these simple rules.

3. Herding Behavior

Herding behavior, otherwise known as the bandwagon effect, represents the fact that people are affected by other people around them and therefore, this affects their economic decisions as well. While Traditional Economics assumes that agents maximize their utilities according to their budgets and the market price, which is driven by supply and demand, according to Behavioral Economics other people around us influence our economic decisions.

Fear (Economou et al., 2018), confusion (Lin, 2018), and a common identification among decision-makers may all improve herding behavior (Berger et al., 2018). During the pandemic we watched people in grocery stores, our relatives or friends purchasing tons of food they cannot consume before they go bad, almost a year enough toilet papers, paper towels, and other sanitary products. This situation was at the level of store owners had to limit certain types of products per person. People acted this way because this was both somehow feeling themselves under-control again and doing the same thing that their neighbors or someone they knew did. The 'logic' behind this kind of behavior is that if other people are purchasing this, then, they feel the pressure to do the same thing because otherwise, they would feel like they are acting inconsiderate and if they do not get it now they may not be able to get the item when needed later.

4. Status Quo Bias

Students prefer to sit in the same seats in classrooms even though there are no sitting charts, which is an excellent example of status quo bias. As we learn from Thaler and Sunstein (2009, p.34), the term 'status quo bias' was first coined by Samuelson and Zeckhauser (1988).

The status quo bias is the hope of most subscription-based businesses like Netflix, Hulu, the New York Times (online version), and some magazines, among others. Since people are not very eager to leave their comfort zone and if some effort is needed to change something, people tend to leave it just how it is. Even when given the choice to choose among alternatives, Samuelson and Zeckhauser (1988) find that people prefer to stick with the default option, which is known as the status quo bias, in retirement and health plans.

One of the reasons that it took some time for people to adapt to the recent pandemic is because they wanted to stay how it was before in their lives and not to do anything about it. The key here is to make the new default options serving the purpose of problems related to the pandemic. Even organ donation might be increased by using the status quo bias/default option (Johnson

& Goldstein, 2003). Therefore, it can be concluded that by knowing how to use default option and choice architecture (Thaler & Sunstein, 2009, pp.83-102) people can be persuaded to make better and smarter choices.

This principle also applies to vaccination as well. Even when the vaccination is free of charge people tend not to get vaccinated if they need to make the arrangements themselves but if they were appointed to get a shot it increases the chance of them getting vaccinated (Chapman et.al., 2010). Thus, in order to increase the vaccination rate and increase immunity to the novel coronavirus quicker people should be appointed to get COVID-19 vaccine shots. If they have to arrange their appointments and apply to get vaccinated it would take longer than comparison the default option was presented to people in the first place. In order to prevent this delay, what governments should do is to first arrange the vaccination process for individuals and then inform them about the process and other information such as time and place.

5. Overconfidence

Overconfidence is described as the propensity to make false and misleading assumptions about oneself and one's abilities. Moore and Healy(2008) claim that people appear to overestimate their abilities and intelligence. Furthermore, people assume that they are superior to the average person (Moore & Healy, 2008). Thus, overconfidence can be used to explain a variety of risky behaviors including health-related choices such as smoking and eating habits.

In his book *Thinking, Fast and Slow*(2011), Daniel Kahneman discusses how algorithms outperform humans when it comes to making decisions and solving complex problems (i.e. hiring a person). Additionally, he mentions that even the experts and professionals cannot be trusted in order to make decisions (Kahneman, 2011). Therefore, since we can and should use the help of algorithms to make better and smarter decisions.

During the pandemic, algorithms have been used to decide whoever going to be the persons who will have the priority to get vaccinated. This was a smart choice to overcome the overconfidence problem. Other COVID-19 related problems might occur when we think we are not going to get sick even if we are not being cautious and following the sanitary rules we should follow, because we think our immune system is better than others. Since it is not worth the risk, the governments are applying mandatory precautions.

6. Conclusion

In this study, I reviewed a myriad of Behavioral Economics principles and discussed their relations to human behavior during the COVID-19 pandemic. The COVID-19 pandemic has affected the world in different aspects. Once again we saw and watched how vulnerable and fragile we can be.

Thaler and Sunstein (2008) write about how to improve decisions about health, wealth, and happiness in their book called *Nudge*. We, now, know that it is possible to improve people's choices and use 'nudges' and 'choice architecture' in terms of having people make better and smarter choices. As we can see above, the applied policies using behavioral economics methods have worked successfully. Yet, there is still room to improve these implications in terms of health policies such as vaccination.

It is for sure that the picture will be clearer after the pandemic is over. Thus, the upcoming studies should investigate the aftermath of the COVID-19 pandemic and to increase the common good it is going to be needed to investigate the Behavioral Economic concepts and applied policies are successful and to know what to do to make them better.

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