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RATIONAL ECONOMIC BEHAVIOR – INTERDISCIPLINARY APPROACH[2]

Abstract

Behavioral economics and economic sociology arise and develop on the point where economics and psychology, as well as economics and sociology, overlap. Behavioral economics studies economic factors and psychological appearance that have a direct impact on economic behavior. On the other hand, economic sociology studies the behavioral norms of the social groups and the organizations. The correlation between the research subjects of these scientific disciplines imposes a need for specifying an interdisciplinary model of human behavior in society. The aim of this paper is to evaluate opportunities for the development of an interdisciplinary model of human behavior.

Key words: *Economic sociology, behavioral economics, rational behavioral, interdisciplinary research*

JEL Classification: A10, A14

РАЦИОНАЛНО ЕКОНОМСКО ПОНАШАЊЕ – ИНТЕРДИСЦИПЛИНАРНИ ПРИСТУП

Апстракт

Тамо где се додирују економија и психологија, економија и социологија настале су и активно се развијају нове научне дисциплине: економска психологија и економска социологија. Економска психологија испитује утицај економских фактора и психолошких појава на економско понашање. Економску социологију, пак, интересују норме понашања друштвених група и организација. Повезаност предмета истраживања ових научних дисциплина намеће потребу спецификовања заједничког модела понашања човека у друштву. Циљ рада је да оцени могућности израде интердисциплинарног модела људског понашања.

Кључне речи: *економска социологија, економска психологија, рационално економско понашање, интердисциплнирани истраживае.*

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Introduction

One of the clearly defined tendencies in the development of contemporary science is the overlapping of various fields of scientific knowledge. New scientific disciplines have appeared and are actively developing on the overlapping points between economics and psychology, as well as economics and sociology: economic psychology (behavioral economics) and economic sociology. The representatives of these disciplines attempt to explain and foresee human behavior (Kahneman, 2003). The consideration of human behavior requires from the representatives of these scientific fields to devise a common interdisciplinary model of human behavior in society. This problem is the subject of numerous papers by local and foreign scientists (Schumpeter, Becker, Simon, Taylor, Bruner, Weise, Arow, Hodgeson, Schrader, Williamson, Lindenberg etc.), whose ingenious analyses were able to explain certain principles of human behavior.

The aim of the paper is to assess the possibilities for developing a model of a man common to all social sciences. The paper represents an analysis of the essence of economic behavior. The purpose of the paper is to emphasize what is and what isn't common in the applied approaches. The article consists of three parts. The fundamental elements of the economic and social approach in studying rational economic behavior are presented in the first part. The second part contains a description of the fundamental characteristics of the psychological model of human behavior, applied in economics, psychology and related disciplines. The end of the paper is devoted to the clarification of the economic rationality of society and individuals.

Economic Approach

According to contemporary beliefs, each social science has its own approach to the study of objective reality. The difference between economic science and other social sciences is in the approach to the phenomena that study it. In the paper entitled "Economic Approach to Human Behavior", Gary Becker stresses that: "economic theory, as a scientific discipline, differs from the other fields of social knowledge not only in its subject of study, but in its approach as well. On the whole, the essence of the economic approach is comprised from the merged assumptions of maximizing behavior, market balance, preference stability etc. I have come to the conclusion that the economic approach is comprehensive and applicable to all forms of human behavior." (Becker, 2003, p. 28)

The author of the contemporary definition of the subject of economics, Lionel Robbins, prominently stressed that: "economics is a science which studies human behavior based on the relationships between the aims and the limited means suitable for alternative uses" (Robbins, 1993, p. 19). For this reason, an economist does not study the nature of certain randomly selected forms of human behavior, but views and analyses them from the aspect of the comprehensiveness of (all) social links and involvements in social structures (Valeryevich, 1997, p. 113).

There are three fundamental premises in the foundation of the economic approach: (1) commercial entities behave rationally; (2) a commercial entity, along with other individuals, maintains the balance and creates a spontaneous social order and (3) the preferences of commercial entities do not change over time (Hafner, Krstic, 2011, p. 39).

In order to explain individual behavior, economic science used the model of the economic man (*homo economicus*). The development of science enabled the formation of various approaches which present this model. The first person to define the subject of political economics with the aid of the model of the economic man was John Stuart Mill (Kitanovic, Petrovic, 2010, p. 43). Without paying too much attention to all the phases of the model's transformation, we will attempt to define its key characteristics in the contemporary schools of economics.

The assumption of neo-classical economic theory is that the behavior of all the economic participants is perfectly rational. The perfect form of rationality is based on the principle of maximization which states the following: the consumer always strives for maximizing usefulness (to achieve the maximum satisfaction of the needs), while the manufacturer wishes to realize maximum profit. Bearing this in mind, it needs to be taken into account that the general pattern of the *homo economicus* includes and combines in itself the following propositions.

1. *Homo economicus* finds himself in a situation in which the quantity of the available resources is limited to him. At the same time, he cannot satisfy his own needs and thus must make a choice.
2. The factors which condition this choice are divided into two groups i.e.: preferences and limitations. Preferences have the character of the subjective needs of an individual, while limitations represent human weaknesses, owing to which the achieved usefulness level is well below the maximum level.
3. In making his selection, the economic man is driven by his own tendencies, not the interests of his business partner, and not by the adopted social norms, traditions etc.
4. The pattern of the *homo economicus* shows the presence of a wholehearted rejection of general interest. Only individual interests are obvious. The fundamental individual interest is the realization of the maximum possibilities of freedom. In accordance with this, the interest of the individual is primarily the maximum of the economic satisfaction which can be achieved while simultaneously respecting the idea of freedom “as the dominant principle in human relationships and the organizational principle which has enormous potential for the future commercial development and progress of the society as a whole” (Madzar, 2013, p. 59).

The basis of the neo-institutional model of the economic man involves the principle of limited rationality. The essence of the rationality concept may be best expressed by the words of Herbert Simon: “people are consciously rational only to a certain extent” (Simon, 1995, p. 17). By pursuing their interests, they frequently achieve the results contrary to the conceived or unsuitably set goals. When making decisions, information is hard to acquire, superfluous or highly complex, so there is no guarantee that the choice will not result in losses in complex situations. The aim of the neo-institutional model is that the analysis is directed towards norms, rules and stereotypes which govern human behavior.

According to this concept, the principles of economic behavior are: optimism, habits, tradition, social and moral norms. In this particular instance, there is also a presence and tendency to rationality and its limitations. The essence of limited rationality was most accurately expressed by Knight: “Rational behavior is non-rational when the costs of rational behavior are too high” (Knight, 1921, p. 67). In contemporary scientific literature, *REMM* (*Resourceful, Evaluating, Maximizing Man*) is the designation of the economic man who creates, evaluates and maximizes, while the abbreviation *REEMM* (*Resourceful, Restricted, Expecting, Evaluating, Maximizing, Man*) designates a man who creates, examines, expects, evaluates and maximizes (Bruner, 1993).

Sociological Approach

The fundamental trait of the sociological approach to the model of man (*homo sociologicus*) is the reduction of the influences of personal interests and assigning a key role in society, social institutions, rules and norms of behavior. According to the opinion of Radajeva, sociology is not involved in the nature of human behavior. Its subject of interest is the action of people as members of society (Radajeva, 1997). Unlike the economic form of action, the social action of man contains an internal subjective rational unity. In other words, we face the social action of man when it becomes a product of internal motivation and subject's reaction to the stimuli in the surroundings. Rational behavior of (sociological) man is understood as his response to certain social norms.

According to Lindenberg's *SRSM* model (*Socialized, Role-Playing, Sanctioned, Man*), man is a living being that has roles, whose behavior is subject to sanctions (Lindenberg, 1985). Individuals are prepared for specific roles with socially determined characteristics and commitments. If an individual with an insufficient level of socialization can avoid their commitments, then their behavior must be controlled. This is why the process of socialization is supplemented and strengthened with sanctions. Bearing this in mind, Lindenberg proposed the *OSAM* model (*Opinionated, Sensitive, Acting, Man*) for a man that is adjustable, active and has his own opinion (Lindenberg, 1985). The mentioned model is an essential integral element of empirical sociology which deals with social processes, such as: learning and guidance. These are socially determined phenomena.

According to Lindenberg, the *SRSM* model is uncreative. In the *SRSM* model, human behavior is limited and subject to sanctions. In addition, the rarity factor only indirectly influences human behavior. The act of choice is excluded and nothing can be maximized. Human abilities, not only in terms of intellectuality and knowledge, but also on the moral plane, are seriously limited. For this reason, human behavior dominantly depends on the social structures and norms of behavior within a specific social system. Explaining the relationship and the key difference between the *REMM* and *SRSM* model, Lindenberg states that the *SRSM* model is appropriate for the description of a traditional social system which it marks: stability, dependence on religious and mythological presentations, value rationalization, collective character of society and the absence of personal prominence etc. (Fedotova, 1995). In the *SRSM* model, the social system does not exhibit perspicacity and the ability to make a choice; its potential remains unused and is satisfied by inherited institutions.

Prior to establishing sociology as an independent science, many issues that represent the main subject of research in sociology had been studied as classical political economics. The connectedness of ideas from various scientific disciplines causes the need for interdisciplinary research. Schumpeter emphasizes that this connection between the ideas of economic science and sociology creates economic sociology – a field of analysis in which neither economists nor sociologists can make a single step without stepping on each other's toes (Schumpeter, 1989). The author views economic sociology as an especially important element of economic science. The Dutch sociologist, Korver, believes that the transformation of classical political economics into neo-classical economic theory and the suppression of classical sociology are the key reasons of its adventitious theoretical standpoint.

Solutions to this can be found in the unification of economics and sociology, which represents the development of a single model of man based on the principle of methodological individualism. Finding a compromise between the economic and sociological model of man is the subject of many domestic and foreign papers. In the opinion of a German sociologist and economist, Weise, it is not a matter of selection among certain models, some of which have been verified as good, while others are indisputably bad, but of the choice in options which simultaneously have their advantages and disadvantages, and which require serious examination (Weise, 1993).

Psychological Approach

Economic psychology examines the impact of economic factors and psychological phenomena to economic behavior. French scientist Tard first started to deal with the Problems of economic psychology. In addition, a great contribution to its development can be ascribed to American scientist J. Caton. However, many scientists believe that the first psychological man appeared in the works of Freud.

According to Freud, the main characteristics of man are impulsiveness and emotionality. His behavior is determined by internal unconscious and uncontrolled forces, which make him contradictory and unpredictable. It is a matter of instinct (id) and moral and social norms (super ego). These forces are in constant collision and form a complex mutual relationship of man’s personality. In accordance with this, a personality is formed and is actively developed as a result of the conflict between man’s instinctive (impulsive) nature and the demands of society (Aleksandrovna, 2014).

The other researchers view the concept of “psychological man” as the motivational model proposed by Maslow. According to Maslow, every individual has goals (motives and needs) which they wish to realize. These aims are individual, innate, and there is certain regularity or hierarchy among them. There are five levels to this hierarchy, i.e.

1. Fundamental physiological needs, such as: the need for food, water, oxygen, sleep.
2. Need for security.
3. Need for belonging and love.
4. Need for self-respect, which may be classified into two groups: the need to respect oneself and the need to be respected by other people.
5. Need for self-actualization, which represents the utilization of all capacities, potentials and talents that an individual has (Milinkovic, 2014).

Needs from higher levels in the hierarchy can appear in the consciousness of an individual only when the lower-level needs have been fulfilled.

There is no correlation between the model of psychological man by Freud and Maslow on the one hand, and the model of the economic man on the other. Within the scope of this Article, we are not as interested in the comparison of these models as in the estimate of the influence of psychological research on the formation of the model of man in economics, since psychology lies at the basis of any social science and every fundamental research needs to be considered under psychological terms (Fenko, 2002).

The proof of recognition of the validity of psychological research for economic science was the Nobel Prize for Economics (2002), awarded to psychologist Daniel Kahneman. In the official conclusion of the Nobel Committee, it is stated that Kahneman was given the award for the integration of psychological research in economic sciences and evaluating the decision-making process in conditions of risk (Aleksandrovna, 2014). With Tversky as the co-author, in 1979, Kahneman published the article “Theory of chance: analysis of making decisions under the conditions of risk”. In this paper, authors cite a great number of experiments in which the respondents were asked to select one of the offered alternatives. The significance of this research is in the discovery, forecasting and classification of systemic mistakes in the decision-making process (Kahneman, 2003).

Kahneman's recognition served some scientists as the cause for criticizing the model of economic man. It seems that the oft cited statement that Daniel Kahneman had devoted his entire life to disproving the main thesis of economic theory on the rationality of human behavior is not entirely fair. By giving him the award, economists practically apologized for deceiving people for 300 years (Fenko, 2004). "If people are not always capable of acting rationally, then much of what economists have included in their science must be reevaluated." (Voronov, 2003, p. 27)

In our opinion, the discovery made by psychologist Daniel Kahneman does not at all dispute the model of economic man. On the contrary, it significantly enriches it, and extends the field of its application. In any event, this is the belief of the Nobel Prize Winner as well. In his first address, after learning that he had been awarded the prize, Kahneman stated that the prize represented the recognition of the success in the development of economic psychology (behavioral economics), provided universal behavioral models have been created, which explain the position of economic science and many economic phenomena.

Rationality of Society and Rationality of an Individual

The concept "rationality" in economics has a different meaning from the one found in social sciences, where rationality is not different from the usual, everyday concept of rationality. In everyday language, rationality means the "state of clear consciousness", while in economics, the term „rationality" expresses a situation in which a person thinks before they act on something. A rational person compares costs with the gains before undertaking any action. By electing one of the offered alternatives, economic man is governed by personal subjective concepts of usefulness which can be material, as well as psychological, social and spiritual (Avtonomov, 1998).

The rationality of economic man is closely connected with the principle of methodological individualism. In accordance with the principle of methodological individualism, autonomous and free individuals make decisions which maximize their interests, while universal greed produces general social well-being. As Adam Smith points out: "We do not get our lunch owing to the kindness of the butcher, brewer and baker, but because they are taking care of their own interests" (Smith, 1935, p. 17). However, many authors misinterpret Smith's viewpoints on rational economic behavior. If we say that people act or need to act in accordance with their interests, this does not mean that people are solely governed by or should be governed by their tendencies (Hayek, 2001, p. 256).

Furthermore, the term "rationality" in economic theory should not be interpreted in such a way to deem that a student who spent his entire scholarship on purchasing a bouquet (flowers for his girlfriend) is "irrational", while his friend is rational by saving most of his scholarship in his purchase of a phone. From the standpoint of economic theory, the behavior of both participants is rational, provided that they have elected the preferred (optimum) alternatives. Another example comes from Heine's book. Having been awarded the Nobel Prize for Peace, Mother Teresa decided that the 190,000 dollars of her prize were to be used to build a hospital for the leprous. Had she acted in her "own interest"? Can her behavior be considered "greedy"? (Heine, 1997). In other words, in most cases, economic rationality signifies the selection of the optimum variant, without any type of requirements for the sense of the very goal.

The concept of economic rationality does not provide any normative judgments on preferences. Whether the preferences of the participants are “good” or “evil”, “instrumental” or “expressive”, is of no consequence if the individual acts in accordance with their own interests. A person who attempts to conquer the whole continent and acts accordingly, such as Adolph Hitler, is as rational as the person who strives for the promotion of democracy and acts in accordance with this, such as Woodrow Wilson. Similarly, a person who is searching for work and also wishes to minimize their revenue acts as rationally as another person who acts in accordance with their own wish to maximize their revenue. Saying that someone is instrumentally rational is not a compliment; this is simply a way to say that they are acting in accordance with their own preferences, whatever they may be. Various psychological, informational or structural factors result in consumers, especially organizations, being capable of acting rationally. If the consumer elects the best cart that they can afford, their behavior is rational.

Rationality is not solely a characteristic of an individual. It also appears as the tool for survival, life and development of potentials of relevant societies. In the traditional society, it is evident that the rationality of the whole determines the rationality of the individual and the rationality of the conditions (Fedotova, 1995, p. 11). However, in contemporary society, there is no doubt that the rationality of society is determined by the rationality of the individuals that comprise it. Unlike traditional society, where an individual follows their own values – tradition, faith, peace, morality, contemporary society forms the priority of individual aims.

In Place of a Conclusion

Economists utilize models in order to study how the world functions. A model is built based on certain assumptions and represents the instrument of analysis. In accordance with this, it is necessary to select and construct a model dependent on the aim of the research in order to provide the best scientific result. This is illustrated with the following example. Let’s assume that the task is to determine the surface of a room. During the measurement, a ruler, steps, and other instruments may be used. When selecting an instrument, it is important to precisely formulate an aim. If accuracy is a priority, the ruler needs to be selected. If the measurement is to be performed with maximum expediency, and minimum costs, then it may be done by counting steps (Aleksandrovna, 2014). Taking all this into consideration, the following characteristics of the model of rational choice can be isolated:

1. The rational choice models are flexible enough to explain many phenomena which cannot be explained by economic theory, in the narrow sense. These models have provided important insights into related fields, such as: sociology, psychology, political science etc. (Gilboa, 2013).
2. The advocates of the rational choice model do not claim that the hypotheses of the model can explain practically everything that happens inside the field that they cover, but that good models can assist us in understanding and formulating scientific hypotheses. Considering the fact that the technical mechanism of contemporary economic science is non-historical and asocial, rational choice theory is not necessarily limited to explicit markets, where economic and every other type of behavior is regulated through price mechanisms. This has paved the way to the expansion of rationality into the non-economic domain, and redefining the economic domain, including market relations (Golubovic, Milosevic, Stefanovic, 2011, p. 140).

3. There is a belief in the possibility of developing universal models of behavior which explain the position of economic science and many economic phenomena. At least three arguments are cited as proof of this claim.

The first is that contemporary achievements of behavioral economics do not dismiss economic behavior rationality hypotheses, but only expand the field of their application. The second is found in the statement by Gary Becker: “The economic approach does not require the individual participants to compulsory understand their striving for maximization, or to be able to verbalize the reasons for the existence of stereotypes in their behavior” (Becker, 2003, p. 39).

The third argument is reduced to the statements of the representatives of sociology. Economic theory and its support from the microanalysis of the behavior of an individual and group have not managed to reach any significant observations concerning the functionality of commerce and trade as a whole (Stojanovic, 2007, p. 131). Contrary to this, sociology is wrong not to pay attention to the leading role of economics when it comes to explaining the behavior of individuals and groups. Therefore, economics and sociology must go down the same road. The theoretical cooperation between these two disciplines forms the theory of individual impact, while the analytical cooperation brings the theory of social impact (Korver, 2001, p. 113-4).

The model of economic man incites the cooperation between experts from various fields and thus contributes to the development of a unique approach to economic theory and related disciplines.

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