How do economic recession affect people's behavior

your Economic Recession and Human Behavior Introduction Social scientists' of the relation between human beings and economics revolves around the utilitarian theory and market process theory (Cleveland P. A., 2000). As Cleveland says, all human beings are rational and work to get maximum economic returns for their scarce resources and this is the basis for the utilitarianism. Market process theory suggests that the sum total of knowledge is continuously increased by individual customers who come to the market place to trade their resources and ideas. In this process, the benefit is accruing not only to the customer himself but to other customers as well. However, as the theory points out, the knowledge is never complete and this imperfection leads to economic growth. This may not always be so. In times of economic recession, the more the awareness of bad news, the greater is its impact on human behavior and the economic crisis.

Necessity, contingency and certainty as factors in human behavior

According to Charles Hodge, if a human being is assumed to behave out of necessity, he loses his identity as a rational person capable of deciding based on his thoughts and analysis (Hodge as cited in Cleveland, 2000). He becomes a mechanical person and can not be held responsible for the consequences of his behavior. Similarly if he is assumed to base his actions on the contingencies, he is imbibed with irrational and autocratic power of determination, acting even against his own will. Hodge rejects both these patterns of behavior that emerge from the utilitarianism theory. In the third behavior

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pattern viz., certainty, the individual behavior is explained by the individual's own rational analysis of a situation and determination of what is best in his own interest, and is embraced by Hodge as the more appropriate explanation of human behavior.

Behavior and economic recession

The subprime crisis in the USA led to large scale defaults in the mortgage industry and its contagion effect soon engulfed a host of other sectors like the financial institutions, banks and manufacturing industries. Bank failures dried up the credit available for the business and industry and this has in turn led to significant loss of jobs and consumer confidence. All the major economies of the world are facing a downturn due to globalization. Mass communications media ensures that individual behavior is influenced and aggravated by the frenzy of collective disaster.

Loss of consumer confidence and credit squeeze are the major factors impacting human behavior in these circumstances. US economy which is characterized by a high degree of consumer spending, is witnessing consumer resistance and frugality unheard of in a long time. Consumerism is a way of American life and the changes in this attitude are a result of the economic recession. Whether it is the institutions like the banks or individuals, caution has become the watchword in all dealings. Uncertainty in continued individual earnings or the national economic prosperity is leading to cut back on non-essential spending. According to Imboden, one of the positive outcomes is a drastically

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reduced use of the cars for travel and a corresponding increase in the time spent with family at home (Imboden E, 2008).

Conclusion

In times of economic crisis, human behavior tunes itself to a greater degree of caution and economic value realization. Preserving and protecting scarce capital, avoiding reckless spending and risk aversion are the hall marks of this changed economic behavior.

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