Behavioral economics performance

Literature, Russian Literature

Normative and Positive Economics: McFadden (3) defines normative economics is a branch of economics that deals with judgments, emanating from the value of a product. This branch of economics concerns itself with what is supposed to be, at the expense of what actually it is (McFadden, 6). Normative statements represent an opinion, or a theoretical scenario, and they are always used to develop new ideas, and establish goals. An example of a normative statement is such as; the government should reduce taxes by half, in order to increase the level of disposable income within the state. Neoclassic theory better explains the principles of normative economics. McFadden (6) denotes that neoclassic economics focuses on the determination of income, prices, and output distribution in a market through the concepts of demand and supply. Neo-classic economists use the principles of rationale choice theory to develop and implement their ideas. On this basis has a normative bias because it does not explain and describe an actual economic circumstance, but provides idealistic solutions to economic problems that cannot be tested, and proved for their accuracy (McFadden, 7). Positive economics is concerned with what will happen if a specific policy is enacted or not enacted. Statements that are made in regard to this branch of economics can be tested and their accuracy determined (McFadden, 6). An example of a positive statement is; increasing the minimum amount in which employees are paid in a state will increase their ability to save. From this statement we can denote that if a government does not increase the minimum wage of its employees, it would be difficult for employees to save. On the other hand, if the government increases their minimum wage bill, employees will be able to save. It is possible to prove the

accuracy of this statement by conducting a research on the same. Behavioral theory better explains the principles of positive economics. (McFadden, 20) denotes that behavioral economics studies, and analyzes the effects of emotional, cognitive and social factors on economic decisions undertaken by organizations, and people. It studies the consequences of economic policies on specific aspects of the economy, and the rationality of such actions (McFadden, 21). On this basis therefore, behavioral economics measures the performance of policies enacted, and determines if the policy is effective or not. Behavioral economics is guided by three themes which are, heuristics, market inefficiencies and framing (McFadden, 33). The study of market inefficiencies in behavioral economics concerns itself with observing the non-rational decision making process, and its impact in affecting the prices of commodities within a market. Heuristics on the other hand focuses on how people arrive at economic decisions. According to this aspect of behavioral economics, people are not rational in making their economic decisions. Framing on the other hand, focuses on the emotions of people, and how these emotions affect their economic behavior. An example of a contract that depicts characteristics of a behavioral economics is a commitment contract. A commitment contract is based on the principles that people will always fail to do what they promise to do. In order to make them fulfill their promise, it is therefore essential to persuade them to sign a commitment contract. The commitment contract is also based on the notion that offering incentives to people would motivate them to do certain economic activities. Take for instance when an individual signs a commitment contract with a weight reducing company, promising to attend the gym sessions at least

twice in a week. The notion that working harder at the gymnasium and keeping their time commitments will lead to their achieving their objectives of weight loss, and therefore toning up their body will make them observe time, and keep their financial obligations to the company. In conclusion, the guiding principles that relate to neo-classic economics are transitivity, completeness, and convexity. Transitivity refers to the preferences that customers have towards a particular commodity in a market. These preferences are guided by the level of satisfaction, utility and happiness an individual obtains by using the particular product (McFadden, 6). For instance, before a customer signs a commitment contract with a gymnasium, the services of the gym must have satisfied his requirements. On this basis therefore, the customer will achieve utility and satisfaction by attending the gymnasium, and using their services. According to this notion of transitivity, a product that does not meet the expectations of the customers would not achieve higher sales. This is because customers will neglect it, and look for a substitute product that meets their expectations. Works Cited: McFadden, Daniel. " Rationality for Economists. (1999): 1-37. Print. Top of Form Bottom of Form