

## Research on the Development of Behavioral Economics and the Orientation of Economics based on Theoretical Basis

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**Keywords:** Theoretical Basis, Behavioral Economics, Orientation of Economics

**Abstract:** Behavioral economics refers to the economic theory that takes human behavior as the basic research object. It conducts regular research on the economic behavior characteristics of individuals and groups through observation and experiment. It constructs theory based on reality, thus freeing the shackles of traditional theory based on Abstract assumptions and often based on actual assumptions, and injecting vitality and vitality into economic research. Behavioral economics advocates and pays attention to the study of human economic behavior, and constructs a theoretical framework of “humanity and human value” for modern economics, making economics a human science and human being the main body of economics.

### 1. Introduction

The main theoretical contribution of behavioral economics is to break the premise hypothesis that traditional theory is invariable to human behavior. Through a variety of empirical research methods, people have further developed the economic behavior characteristics and causes of manufacturers and consumers, as well as economic systems. The understanding verifies the validity of traditional theories in experience and establishes new empirical laws that correctly describe human behavior. At present, the basic theory of behavioral economics mainly includes the following aspects:

Traditional consumer behavior theory holds that people's consumption expenditure is a function of income. Studies in behavioral economics have shown that, in addition to the above factors, it depends on whether consumers are willing to spend. Despite the economic development, people's income levels have greatly increased, and there has been more freedom in determining consumption and savings. At the same time, in the consumption structure of people, the proportion of spiritual goods expenditure has also increased significantly, and some moral and public welfare expenditures have also increased significantly, such as donations and sponsorships. In this case, consumer spending depends not only on the level of income or purchasing power, but also on the willingness of consumers to consume.

According to traditional theories, people's savings tendencies change in the same direction as income levels. Behavioral economics research shows that when income increases, savings are relatively reduced, because people are more inclined to withdraw deposits to buy high-end durable goods such as cars and housing, so savings decline; when income is reduced or people are in a bad situation, the propensity to save is not It will fall, people will try to save money in case of illness, unemployment and other situations.

Traditional economics believes that supply changes with the price, and demand changes with the price, that is, the higher the price, the smaller the demand. Behavioral economics research shows that the impact of price increases on demand on a commodity depends on people's psychological expectations of price changes. If it is expected that there will be a downward trend in the period after the price increase of this commodity, people will adopt a wait-and-wait attitude, and the current demand will decline; if the price of this commodity is expected to rise, people The response is not to reduce demand but to purchase in large quantities, thus increasing the demand for commodities.

Marginal demand is the increase in demand caused by each additional unit of merchandise supply. According to the theory of diminishing marginal utility of traditional economics, the

marginal demand of the market will decline with the increase of supply. But the study of behavioral economics denies this view. According to its research, after the war in western developed countries, consumers' demand for various commodities and services increased significantly after the income level was greatly improved. Moreover, due to the psychological effect of income increase, some goods were demanded after mass sales. The amount has not decreased, and even increased. Therefore, the marginal demand does not necessarily change in reverse with the supply.

## **2. The emergence and development of behavioral economics**

The economic analysis of human behavior can be traced back to Adam Smith's classical economic theory. Smith used this method to analyze the behavior of “economic man”, but simply understood personal economic behavior as making money or making profits; although traditional mainstream economics has proposed government in decades of research. Take those actions to solve economic growth problems. In the 1960s, Keynesians believed that the government only needed to adjust its tax and fiscal policies to stabilize the economy and end the recession, but created a new term: stagflation. Since the 1970s, both the monetarist assertions, the rational expectations school, and the post-Keynesian theory have a fashionable theory, but the actual test results have not been fulfilled. Even if the supply school predicted on the basis of the Laffer Curve, lowering the tax rate would eliminate the deficit, but this prediction was lost. Why is traditional mainstream economics facing such a dilemma? The key to its problem lies in the deviation of understanding of human behavior, the simplification, mechanization and emptying of human behavior. When studying economic problems, traditional economics often looks at human behavior as mechanical, or just focuses on quantitative analysis of factors such as capital, resources, market, price, interest, and unemployment, while ignoring people in economic phenomena. Research on behavior and its psychological role. Well-known psychologists, Professor D. Kahneman of Princeton University and Professor A. Tversky of Stanford University emphasized that people's behavior is not only driven by interests, but also by multiple psychology. The effects of factors such as instinct, prejudice, discrimination and jealousy. However, these factors have been intentionally or unintentionally Abstracted in traditional economics. Therefore, there are many “abnormal” phenomena that cannot be explained by traditional theories, and economic forecasts often have large errors. In this case, economists have to find another way to make the theory better fit the reality. A group of Western economists have turned their research perspectives behind economic phenomena, trying to find living subjective and psychological factors that affect economic phenomena. Therefore, the behavioral economic theory based on the organic combination of psychological analysis and economic operation law stands out. In fact, the emergence of behavioral economics is not accidental. In traditional economic thinking, behavioral analysis has a very important position. A. Rees (1968) argues that “economics is a social science that studies human and society's need to satisfy material needs and desires.” L. Robbins (1962) argues: “Economics incorporates human behavior into goals and Research on the relationship between scarce means of multiple uses.” A. Marshall (1962) pointed out: “With regard to the study of desire, people can learn a lot from the study of behavior.” Stigler (EJ Stigler, 1987) also emphasizes that economics “the main factor of analysis is people, those who are in turn influenced by the practices and policies we analyze.” Under this kind of thinking, it is also difficult for traditional economics to act. The analysis attracts many scholars with unprecedented charm, which enables behavioral economics to be produced and developed.

## **3. Behavioral Economics Evaluation Research**

The emergence of behavioral economics has caused different reactions in academia. Many scholars have actively welcomed it and considered it to be a science of “returning to reason”; others have dismissed it and believe that it does not have much development prospects. In general, the influence of behavioral economics is still expanding: such universities as Princeton University, University of Washington, and the University of Chicago have successively opened formal courses in Behavioral Economics; the University of Illinois and the University of Virginia have also begun.

Behavioral economics research; the business community is also interested in behavioral economics, applying it to advertising, promotional activities, and pension plans. New York's famous prudential securities company also hired a psychology professor at Harvard University to analyze the stock market trend for investors, and the results achieved unexpected results. Obviously, behavioral economics has attracted widespread attention. And even in the Western economics research center and the base of the American economics, behavioral economics is gradually recognized, marked by behavior economist, Matthew Rabin, economics professor at the University of California, Berkeley. Received the 2001 Clark Award, commonly known as the "Little Nobel Prize", which is awarded every two years by the American Economic Association for the recognition of "a significant contribution to economic thinking and knowledge in the United States under 40 years of age." Young economists. As many economists have said, behavioral economics has received academic attention in Western countries, mainly related to the incompetence of mainstream economics. This is the background of behavioral economics. Compared with traditional economic theory and its policy propositions, behavioral economics is particularly cautious. It does not immediately propose policy proposals and remedies for solving economic problems. It only initiates traditional theories in areas that have long been neglected (human behavior). attack. Even so, it still has an epoch-making significance. Because it uses empirical methods such as observation and experimentation, it brings the economics that have been in the mathematical formula for decades to the real life it studies, and forces unrealistic theorists to face reality. This is the greatest contribution of behavioral economics: it is precisely this that has made the boring economic theory research an exciting change, which has added the proper "humanism" atmosphere to economic research. The famous behavioral economist George Katona and others believe that the biggest difference between the modern economy and the classical economy lies in the fundamental change in the foothold of economic activities. The economy of the object is replaced by the human economy, and people are incomeed. Economic puppets, such as prices and economic pulls, have become the mainstay of economic activity. Any phenomenon in the economic process is nothing more than the economic behavior or aggregation or precipitation of social individuals (or groups). In the words of Katona, "It is these actors who created the economy through their own actions." Therefore, the modern economic phenomenon has become a humanistic phenomenon in essence. What economic analysis must do is no longer to study the Abstract relationship between the quantity and price of products, between savings and circulation, but to discover the economic behavior of people. Characteristics and laws". The rise of behavioral economics shows that "people and their behaviors" are becoming the core and theme of economic research, advocating and focusing on the study of human economic behavior, and constructing a theory of "humanity and human value" for modern economics. The framework makes economics a human science, and people become the main body of economics. The term "human being is the subject" has a special meaning different from common sense cognition, which means: (1) the development of social economy is composed of the economic activities of the human subject with purpose; (2) the law of social and economic development In the end, it is the law of the human subject's purposeful economic activities; (3) The situation of social and economic development ultimately depends on the degree of civilization of the human subject's own development and the level of self-consciousness of the human subject's own role in economic activities; (4) Human desires and needs are the logical starting point of economics; (5) People are the purpose and attribution of economic activities.

#### **4. Conclusion**

The development of behavioral economics has challenged neoclassical economics and stimulated the development of the latter. Many phenomena that seem to be incompatible with rational assumptions have been explained by introducing new constraints into the theory. Scholars have gradually realized that many phenomena that seem to be market failures are actually the performance of another effective operation of the market under the constraints of reality. Research in this area continues and expands the scope of interpretation of neoclassical economics.

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