Three Essay

[Name of the Writer]

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**Question#1**

**Introduction:**

The utility is the main term that defines the behavior of the consumer where qualities of the commodity help the consumer to make the decision for the commodity to but it. Consumer prefers the commodity which provides maximum utility within the given income. Neuro-economics explains the concept of happiness linked to the utility where qualities of the commodity do not affect the choice of the consumer rather consumer makes the decision on the basis of happiness he will get by getting the commodity. The happiness of consuming the commodity is all about inducing secretion of chemical in the brain like dopamine. The significant shift of the consumer choice from conventional sedans and wagons towards the four-wheel drive and sports utility vehicles indicates the same behavior of the consumer where happiness is the priority rather than the quality of the commodity(Camerer, 1999).

**Discussion:**

Behavioral economics helps to understand the concerned with the study of the decision-making process. Behavioral economics makes some assumptions false that it considers the natural barrier linked to the consumer while making the choice. The factors behind the making decision for buying more of 4WD and SUVs include; rationality, bounded rationality, social pressure, self-interest, mental accounting, status and amount of information. In economics, we assume that the consumer selects the choice from different bundles of choice which provide the best outcome and best outcome is linked to the utility maximization. However, in reality, there is a difference between the choice and utility. Consumers often give priority to the choice rather than utility which means the decision making depends on irrationality rather than typical indicators like price, preference, and substitution. Whenever consumer makes his mind to buy a car he may visit the nearby showroom or manufacturer's website. The research does not end there, decision making remains in process and consumer considers product attributes like speed, drive capacity, space, mirror size, and car size. These attributes develop fluctuation in the decision and change consumer's preference.

**Process of decision making:**

The process of decision making starts when the consumers identify the problem. They try to find out the possible solutions to the problem. These solutions are analyzed in terms of their ability to solve the issue. Economists do not consider this long term process while consumer most probably makes a decision after analyzing the available solutions of the problem. Therefore, consumers who made a choice may not able to implement it. In that case, they may shift to the next best solution and it is not necessary that the outcome of the second solution is identical to the first solution. If the given aspect is applied to the scenario, there will be the chance that a person may prefer the quality of the car and choose wagons and sedans. However, at the nearest showroom, the selected model will be unavailable. In that case, the consumer will rather wait for the availability of wagons or sedans or he will simply switch to the available car i.e. 4WD or SUVs. The process of decision making is whether too fast that does not require much effort to select the best solution while in some cases the process is slow and take time and effort to be put in by the consumers. The contrast in the decision is associated with the difference in consumers and the process for making decisions. A heuristic method is an approach to solve the problem. It helps in speeding up decision making through mental shortcuts and intuitive judgment.

**Possible reasons for the decision:**

* **Non-Rational Choice:**

In economics we frame, price, defaults as the barrier of consumer choice and consumers make choice by careful analysis of information, benefits, and costs of the products through existing preferences. However, prospect theory indicates that the decision is not always optimal. Willingness to take the risk changes the preference and influence the irrational decision making. Therefore there are two types of consumers in the market. First, who are risk takers, they make an irrational choice and second are the consumers who do not like losses and make a choice after careful framing of gain and loss. Price is considered as the indicator of quality and can serve as the cue with physical significances. Therefore, in the case of the car scenario, the same price of all the models of the car eliminates the factor of quality for decision making. The same price makes all models with the same quality and physical significance. Therefore, people who make price or quality as their initial priority may move towards SUVs or 4WD.

* **Information:**

Human experience infinite experiences time to time which are mostly identical for the people living in the same society. However, information human brain store is finite in number that means when new information comes to the brain some of the old information gets disappeared. The human brain can assess some limited information at a time; this phenomenon is known as procedural rationality. For the general public, behavioral economics use the information aspect to understand their decision making(Camerer, 1999). Therefore, the case of making a choice for the car is also linked with the information that the consumer acquires while making the decision. Consumers mostly use the review to find out the quality and outcome of the product. If the consumer gets more positive reviews on the 4WD and SUVs because of the increase in the sale he may follow the same choice as the previous consumer had made.

* **Mental accounting:**

Richard Thaler explained the concept of mental accounting. Mental accounting provides the idea about the behavior of the people that is they often do not treat money in terms of formal accounting. Informal accounting all money are the same without any label however, people assume product as less fungible than reality through mental accounting. Consumers frame product as belonging to current income and wealth, and future income. The car models SUVs and 4WD provide more physical consequences that are its appearance, tools, and modern system which successfully gain the preference of the consumers and make it less fungible therefore resulted in more sales of the products than the wagons and sedans.

* **Status and Symbol:**

Another factor for the misbehaving of the consumer can be the status and symbol. These are the factors which enable consumers to make an irrational decision. Society pressure makes consumer select the product which may not be best in term of quality and reliability. However, it becomes a symbol of status. For instance, the increase in the sale of SUVs and 4WD in the initial phase can increase the social pressure that by purchasing these models consumers can maintain their status in the society. Therefore, by eliminating the facts that wagons and sedans are more reliable than the other two models, consumers make choice to buy the whether SUVs or 4WD.

* **Materialism:**

Some individual makes the decision on the basis of present and future resources they have while some people are materialistic. They prefer the appearance and popularity of the product rather than its price and quality(“Behavioral Economics | Exploring Economics,” n.d.). In the case of cars, SUVs and 4WD have somehow managed the popularity and commercial values through advertisement and making the product according to the desires of the consumer. Wagons and sedans managed to develop the most reliable product by providing the number of benefits that are better fuel economy, better luggage space and better ride quality and handling due to being lower and longer than 4WDs and SUVs in the same price bracket. However, for the consumer who is materialistic, for him, these benefits are not enough to maximize his satisfaction. He will choose the product which is the choice of most of the consumer already and has a better physical appearance. Therefore, his choice would be either SUVs or 4WD.

**Methodology:**

The above are some of the factors that can be linked to the misbehavior of consumer choice. However, to find out the other factors or most effective factor research can be developed. The best methodology for the case can be the experimental method. It helps to find out how the market works and what the strategies are and elements that make the consumer make the irrational decision. It is a laboratory-based approach where a group of participants can play either the role of buyer or seller and make the decision by different variable to be assessed. The behavior of the participants will provide data about decision making in a strictly controlled manner. The other method can be a qualitative method in which consumers are used as participants and we can ask them to provide the reasons and information that they used while making the decision for car selection.

**Conclusion:**

Economics believe that consumer makes the decision by careful analysis of costs and benefits while in reality this assumption may not be processed. Various factors like bounded rationality, mental accounting, status symbol, materialism, and information can lead to the difference in the decision of various consumers. Proper research can be helpful to analyses the decision-making behavior of the consumers.

**Question#3**

**Introduction:**

Traditional economics does not study this aspect that price or profit can be based on preferring one supplier on another. There are different types of the market system in which some are price taker and some are price makers. Price is the most important factor for both consumer and seller to maximize the utility and profit. Monopolists are price maker due to non-competitive market. Lack of competition or substitution enables monopolist to increase the price without considering the criteria of "good enough" for the customer. Market deregulation policies and globalization are helping the competitive market to compete with their rival and to increase the rate of productivity. In addition, these two factors are working towards human happiness which relies on the fulfillment of desire through limited resources that are available worldwide.

**Discussion:**

It is the fundamental fact that the consumer when get satisfied with the supplier there is the maximum chances that he will make the transaction with the same supplier in the future. For instance, a customer get defected product with the new product from the supplier then the supplier will become the default supplier of the customer. On the other hand, the supplier who are unable to satisfy their customer or do not help in minimizing their risk, then he needs to struggle for ensuring the customer next time regarding the goods and services that meet the supplier criteria for "good enough". For instance, if the supplier provides the service or product which shows the problem after a few years then it will be satisfactory for the consumer than the product that shows the problem in a short period of time. Therefore, the consumer will think twice before purchasing the product from the same supplier or will prefer some other supplier. In other words, the wise customer keeps on check over the supplier whether he considers the customer's query and his offers in line with his competitors or not. However, a competitive market is opposite to the monopolist where firms are price taker and unable to change the prices. Due to this characteristic, traditional economics does not consider the substitution of one supplier for another. Firms make a price on the basis of marginal revenue and marginal costs. They believe that the true price of the product is based on the full average cost. However, through the impact of the globalization and market deregulation policies, more firms now consider long term profit into account rather than short term profit. Long term profit strategy take goodwill into account and consumer face less discrimination or fluctuation of prices (Gino, 2017).

**The rate of productivity growth:**

As discussed earlier traditional economics set rules and regulation for the firm depend on the market they are in. The policies established by the government make their access to production limited due to government control. However, in contemporary time role of government in the market is limited which provide the number of opportunities to the firms regarding production. Every firm has its own capacity and strategies therefore, in reality, there is no common production function for all the firms. Globalization increases the competition as well as investment to the firms. Different investors invest in the market from where they can get profit in return firms to get able to increase their production from the given investment. The other positive aspect of globalization is the advancement in technology. New innovations and method for the production enable firms to develop useful strategies which enable them to maintain the competition in the global market. Here the market government regulation of the same price for all firms can affect the profit of the firms. However, deregulation policies make opportunities for the firms to get the monopolist profit while producing in the competitive market. For instance, Apple Company is the best example which gets profit from the globalization and market deregulation policies. Apple is the monopolistic competitive company which works in the competitive market but making the profit of monopolistic market. The reason behind this profit is the globalization through which Apple introduced its customized software and apps. The other competitors can copy the software to make the profit but the self-production of Apple make the company the best brand in the market. The deregulation policies helped the firms to expand globally. Firms not only expanded in their own countries but a number of brands and company are producing their products in various nations. For instance, Apple is producing its products in Japan, China, and India. The role and regulation of the government is not the barrier in other countries, therefore, the company is producing the product at a lower cost and making more profit.

Another positive aspect of globalization is customer satisfaction. Due to government policies, the interaction or communication gap was wider between the suppliers and consumers. However, by minimizing the government role communication gap is least in the modern globalized world. Now consumers not only communicate and the customers of their own country but also satisfying the foreign customer. Through communication, firms are getting customer loyalty that means when the customer gets satisfied by sharing the query regarding the product or the service. He makes the supplier as default supplier and the firms increase their customers through their satisfying service. Another significant role in the rate of productivity growth is the internet. Customers get complete information regarding the firms and their products along with reviews from the customers who already used the service. It helps both the firms and customers to maximize their benefits by making a productive decision.

**Human Happiness:**

Human happiness is directly linked to the fact that how much their needs are being fulfilled. For the consumer, happiness is to maximize the utility while for the firm's happiness is the maximization of profit. However, happiness may not depend on the GDP growth of the nation rather it relies on the sense of justice. In an unequal society, it becomes difficult to maintain human happiness because of high insecurities among the people. Significance of a sense of control and hierarchies are the crucial factors behind human happiness. The government set the minimum wages for the labor of the nation which every firm has to follow. However, due to limiting the role of government various firms are now offering the wages higher than the minimum wage rate set by the government. It is significant as the wage rate was set decades ago and there is the need to review the poverty line, basic needs, and expenses of the household. This is because the happiness of the people does not depend on the absolute wage rate or relative wage rate; it is linked to the needs to be fulfilled (Fox, 2012). In other words, if the human is getting the resources to fulfill their needs and desires they are happy. Government policies often consider all citizens at the same level where every household have their own needs and problem. Therefore, government policies in such condition do not satisfy all people. Limited role of government provides people more opportunities to get the resources to fulfill their needs. The impact of globalization is also positive for human happiness. For instance, different brands expanded their production by establishing firms in a different nation, especially in developing countries. The reason behind expanding production in developing nations is the cheap and skilled labors. International companies get labor cheaper in developing countries which help them to increase production. However, as we understand that human happiness does not rely on the GDP growth or wage rate so let us consider the same scenario from a different aspect. When the companies expand their production in other countries it provides them jobs. In developing countries employment is the main issue. Therefore, when people get jobs, they become able to earn their livelihood or to fulfill their need. By fulfilling their need they get happiness. The society with unequal distribution of wealth and opportunities faceless happiness but globalization has minimized this problem. It attracts international employees and the unemployment rate is decreasing globally. The less barrier developed by the government helped companies to expand. Therefore, human happiness is increased by decreasing the control of the government on the market and the increase in globalization.

**Conclusion:**

Government policies often restrict the capacity of the firms and it becomes difficult for the firms to increase their growth. However, through market deregulated policies, it becomes easier for the firms to maximize their profit and maintain the competition with their rivals. In addition, globalization enables firms to expand internationally and to make competition in the global market. Global competition helps in adopting new strategies that can increase production growth. Human happiness is depending on the fact that everyone is able to fulfill their need. The role of GDP growth or wage rate is zero for human happiness. The market deregulated policies and globalization leads to an increase in the opportunities for the people to fulfill their desires through limited resources. Therefore, it can be concluded that market deregulation policies and globalization have a positive impact on the rate of productivity growth and human happiness.

**Question#4**

**Introduction:**

Richard Thaler in his book “Misbehaving” notes that an increasing proportion of homeowners in the United States of America are reaching normal retirement age without having fully paid off their mortgages. In behavioral economics, the issue can be understood firstly through the concept of search goods, experience goods, credence goods and then the concepts of lifestyle, bounded rationality and heuristic bases. The main factor that is linked to the making transaction is the search or gathering the information of the product. People use different sources to collect useful information that can help them to make the choice. Search goods are the products for which resolving the issues of uncertainty, risk, and information can be resolved before making the transaction. Experience goods are the goods which may not resolve the issues of the consumer before purchasing the products however; issues can be resolved by using the product under normal condition. Lastly, credence goods are the products whose issue cannot be resolved before the purchasing and even after using it. The case of failure of paying for mortgage lie under the credence goods where number of consumers were not aware of the future consequences of the land and the risk issues made it impossible for them to pay their loan till retirement(“Millions of homeowners will still be paying off mortgage after retirement, research warns | The Independent,” n.d.).

**Discussion:**

In the contemporary era, the homeowners in the United States of America (USA) are faced with the challenge of paying their mortgage after reaching the retirement age. Several factors account for this menace and the incidents of the past are also associated with it. The fundamental reason is the inability to comprehend the complexities involved in financial systems as loans and debts. The citizens rarely pay critical attention to maintain a balance between needs and consumption. For instance, a common perception in society indicates possible factors which fuel the existence of the lack of ability to pay a mortgage upon reaching the retirement age. The low household holding savings have also increased in the United States. The neglect is causing severe problems too, especially low and moderate-income families. However, it is essential to discuss the economic features of choices, information processing and perception of specific ideas. Primarily, behavioral economics is the study of economics which encompasses and discusses elements of choices and information processing in daily life(McDonald, 2009).

To begin, income is the prominent source of wealth for a wide range of Americans citizens. As per an estimate, a family with an income worth $45,000 can expect to receive $2,000,000 in their course of a lifetime. In the past few decades, households have utilized more than 905 of these households for the purpose of consumption. However, these consumptions have a critical impact on their standards of living. To meet the mortgages and pay other debts before retirement, the key is to make rationale and economic choices. The differences between the consumption make it difficult to save a sufficient amount of income to pay mortgages before reaching the retirement age.It is imperative to highlight these families are inclined toward living a lavish lifestyledespite receiving modest income. However, families receiving good income are alsofaced with the challenge of paying off their mortgages before reaching their retirement age.

Furthermore, behavioral economics relies on the principles of bounded rationality. It means the failure to comprehend critical loan contracts and refraining from paying attention to details of the loan. It is the major flaw which causes the failure to pay for a mortgage before reaching the retirement age. For instance, a citizen may assume the property prices cannot rise if the income does not. It sounds like a flawed comprehension of the key values of economics. Most of the American citizens are not acquainted with the values necessary to be able to understand the bounded rationality. Meanwhile, it is also worthwhile to discuss that one size fits all approach also causes troubles while establishing a structure for spending and savings. As per the principles of behavioral economics, the information processes by people is largely influenced by social values and observations. If a person claims he/she can advance to pay the mortgage before reaching the retirement age but can also spend lavishly, it is not necessary every other person can pursue the same lifestyle. The information processed by people matters significantly as observed in the previous example. The tendency to save, consume and pay attention to loans and debts essentially relies on information processing and observing others.

In addition, heuristic bases are the key factors involved in behavioral economics. Therefore, citizens are bound to have an optimist view related to generate and pay returns. Most of the decisions made by them are not aligned with the way of living. For instance, psychological and cognitive shortcuts are the key factors involved in making decisions which later impact the tendency and potential of people to pay their mortgage with and timely. However, the cognitive limitations of each person are not the same and decision making often seeks shortcuts regardless of the consequences. In these circumstances, it becomes very challenging for citizens to pay a mortgage through their savings or income while doing a job. The income differences also matter but choices define the nature of consumption, income, and savings. For instance, it is the choice of a person whether or not to buy an expensive car. The choice is influenced by several economic and psychological factors which seek ways for the shortcut. If a person cannot pay mortgage easily by buying an expensive car, it is not necessary he/she will refrain from buying the car. The lack of technical knowledge related to the complex nature of loans and debts further make it challenging for them to have significant savings or an economic plan to pay for the mortgage in time.

All of the above factors emerged due to the core issue of lack of information. It is necessary for the consumer to collect the useful information that is available and most importantly available through an authentic source. When there is a lack of information for any transaction, the consumer makes their decision by taking the risk. In other words, a consumer is at risk of accepting a problematic decision when there is a shortage of both imagination and experience. Here another issue arises that is the issue of the time. When the consumers have a shortage of time it becomes impossible to collect all the information to minimize the risk. Therefore, the consumer who makes the decision in less time have more chances of facing losses in the future(“‘Should I pay off my mortgage?’ Five thing to consider before you do,” n.d.).

In case of a mortgage, the lender and buyers are both somehow made the transaction with less information. If the price of the product is not finalized during the transaction or before the agreement then it can lead to the significant switching costs. For instance, when the future amount is not identified at the present time it may result in benefit as well as the loss for any one of the party. The consumers were unable to pay the loan after reaching the retirement age which indicates that they were not aware of the future value of the mortgage. The lack of knowledge leads to the low saving for the payment of the loan. Therefore, the families who were not even much poor or spending the normal lifestyle faced the crisis when reached the retirement age. Home-buyer made the agreement in ignorance of the payment they had to pay on a monthly basis also lead to the financial crisis from 2007 to 2008. All these concepts provide a complete overview of what actually happened that the families were unable to repay the amount of the loan.

**Conclusion:**

Some consumers are risk taker while most of the consumer avoid risks and do not rely on the products which are on risk. The risk depends on the information that the consumer gathers before purchasing the product. Some products provide complete information before purchasing it while some do not provide complete information. However, risk can be minimized by experiencing the product in normal conditions. Homebuyer signed the home mortgages agreement with getting the complete information regarding the future amount and monthly repayment which made difficult for them to pay the loan even after reaching to their retirement age. The other factors related to behavioral economics that are linked to the financial crisis of the 2007-8 in the United States of America include; lifestyle, bounded rationality and heuristic bases. Thus, all these factors account for American citizens facing the challenge to pay the mortgage before reaching their retirement age under the paradigm of behavioral economics.

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