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# BEHAVIORAL FACTORS THAT CAN SIGNIFICANTLY INFLUENCE THE DECISION-MAKING PROCESS

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**Abstract:** *BEHAVIORAL ECONOMICS PROVIDES A CAPTIVATING AND PROFOUND PERSPECTIVE ON HOW WE MAKE ECONOMIC DECISIONS. THIS INTEGRATIVE APPROACH, ENCOMPASSING PSYCHOLOGICAL AND EMOTIONAL FACTORS, OPENS SIGNIFICANT OPPORTUNITIES TO IMPROVE THE DECISION-MAKING PROCESS ACROSS VARIOUS DOMAINS. THE PRINCIPLES OF BEHAVIORAL ECONOMICS PLAY A CRUCIAL ROLE IN DECISION-MAKING, BRINGING TO THE FOREFRONT PSYCHOLOGICAL AND BEHAVIORAL ASPECTS THAT INFLUENCE HOW PEOPLE MAKE DECISIONS.*

*THESE PRINCIPLES HIGHLIGHT THE INFLUENCE OF EMOTIONS AND SUBJECTIVE PREFERENCES ON DECISIONS. PEOPLE ARE NOT ALWAYS RATIONAL; INSTEAD, THEY MAKE DECISIONS BASED ON FEELINGS SUCH AS FEAR, JOY, PLEASURE, OR SATISFACTION.*

*THIS ARTICLE DESCRIBES THE FOLLOWING PRINCIPLES OF BEHAVIORAL ECONOMICS: TIME DISCOUNTING AND CATEGORY SIZE. EXAMPLES AND EXPERIMENTS COMPLEMENT THE DESCRIPTION OF THESE PRINCIPLES*

**Keywords:** DECISION, BEHAVIOR, PSYCHOLOGICAL FACTORS, PREFERENCES, PRINCIPLES

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## 1. Introduction

Behavioral economics studies behaviors considered irrational or unexpected in the decision-making process. These anomalies can be modeled and understood, offering the possibility to guide behavior in planned directions. The principles of behavioral economics emphasize the importance of personalization and adaptability in decision-making approaches. (Tegmark, 2017)

People are influenced by their environment and the society they are part of. The principles of behavioral economics show how social and cultural factors can shape individual and collective decisions and behavior. Utilizing the principles of behavioral economics in designing systems, programs, and communication strategies can guide people to make positive decisions and adopt beneficial behaviors. These principles help understand how people perceive risks and rewards in different contexts. (Herbert, 1985)

The principles complement the traditional view of rationality in economics and provide a deeper understanding of human and subjective aspects underlying decision-making. Implementing them can improve the efficiency, relevance, and adequacy of interventions in various fields. They are of significant importance in people's lives as they provide a more realistic and comprehensive perspective on how decisions are made and resources are managed. (Akerlof, 1970)

Behavioral economics acknowledges that people do not always make strictly rational decisions but are influenced by emotional, social, and psychological factors. This understanding is crucial for better managing relationships, personal finances, and other aspects of life.

Understanding these principles can help individuals become more aware of how they are influenced and make more informed choices regarding the products and services they consume.

Development of more effective public policies: Governments can use the principles of behavioral economics in developing public policies to encourage desired behaviors among citizens. This can lead to more efficient solutions in areas such as education, the environment, health, and public safety. (Cristescu, 2015)

In general, the application of behavioral economics principles can bring significant benefits, allowing individuals to understand and optimize their decision-making processes in a variety of contexts. (Kahneman, Tversky, 1979)

## 2. Behavioral economics principle: "Time discounting"

In essence, this principle is based on the idea that immediate rewards are more desirable than future ones. The reduction in the value of future rewards increases with the duration of the delay (Thaler, 2015). This principle of behavioral economics can be explained by the phenomenon known as "temporal discounting." It refers to people's tendency to evaluate rewards based on when they are received. Time discounting suggests that people have a natural preference for immediate rewards and are willing to accept smaller rewards in the present rather than larger rewards in the future.

A common example of this principle is the choice between receiving a sum of money today or a larger sum in the distant future. People tend to favor immediate rewards, even if they are smaller, compared to larger but delayed rewards. The principle has significant implications in various fields, including public policies, economics, and marketing.

In public policies, there may be a preference for solutions that bring immediate benefits, even if long-term solutions could offer more significant benefits. In economics, temporal discounting can influence investment decisions and savings, while in marketing, strategies that provide immediate rewards or benefits may be more successful.

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Understanding this principle allows for considerations of factors such as impulsivity and the desire for instant gratification in various contexts, contributing to the development of more effective strategies and a deeper understanding of human behavior in decision-making.

Another important aspect related to time discounting in the context of behavioral economics is the concept of payment delay or temporal discounting of losses. This phenomenon indicates that people tend to tolerate losses better when they are delayed over time compared to immediate losses. For example, people may be more willing to accept a financial loss if it will occur in the future, allowing them to avoid immediate negative consequences and benefit from a grace period. This aspect is often considered in communication strategies, especially in situations where it is necessary to inform voters or consumers about decisions involving losses or sacrifices. By understanding and applying the concept of time discounting in various contexts, more effective strategies can be developed to influence and guide human behavior in the desired direction. It is a useful tool for developing policies, marketing strategies, or approaches where rewards and losses need to be managed more efficiently in relation to the factor of time. This principle can be used in different fields such as economics, medicine, culture, investments, sports, etc. Examples from these fields can be conclusive:

Economics:

• Promotional offers with discounts for purchasing a product in the next 24 hours, encouraging immediate purchases instead of delaying.

• Significant discounts on purchasing a subscription for online services (such as streaming or software) in the first days of launch.

Medicine:

• Health campaigns promoting the benefits of adopting a healthy lifestyle today, rather than delaying health concerns for the future.

• Wellness programs offering additional benefits for those who participate and enroll in the first month, encouraging the adoption of healthy habits as soon as possible.

Culture:

• Limited release of a film, where watching in the first days offers advantages or exclusive access, thus encouraging people to participate immediately in the event.

• Early ticket sales for a concert or show with reduced prices, motivating people to reserve their seats in advance.

Investments:

• Special offers for investors allocating capital to a specific fund or project within a limited time, providing them with immediate advantages.

• Investment funds with lower managed fees for those depositing a significant sum into the account in the first weeks of launch.

Sports:

• Fitness subscription campaigns offering reduced rates for those who register and pay for a year-long subscription in the first two weeks.

• Special offers for early registration for sports events or marathons, including bonuses or free equipment for those who sign up in advance.

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### 3. Behavioral economics principle: "Category size"

In essence, this principle is based on the perception that outcomes are more likely if they are classified in a larger category, as opposed to a smaller category. Thus, the "Category size" principle in behavioral economics refers to how people perceive and make decisions based on how options or information are presented. People tend to consider outcomes more likely or more significant when grouped in a larger category compared to when presented in a smaller category. (Niculecu, 2017)

The interpretation of this principle is based on the fact that the human mind often simplifies decision-making by resorting to heuristics or general rules that facilitate the decision-making process. When information is organized into large categories, people can more easily perceive a certain type of outcome or event as more common or likely. (Thaler, 2015)

For example, in the field of investments, an investment fund may use the "Category size" principle by presenting the historical performance of a large group of stocks or securities in a general category (e.g., "Technology stocks") to suggest that investments in this category have had notable success in the past. This can influence investors to consider investments in this category as safer or more advantageous than others.

It is important to note that this approach can distort the perception of reality and lead to incorrect decisions, as not all elements in a large category may have the same characteristics or prospects (Kahneman, 2018).

Convincing examples of using the "Category size" principle:

• Economics: In marketing, a healthy food producer may try to influence buyers by presenting various products in a broad category, such as "Organic foods." This could create the perception that all products in this category are automatically beneficial for health.

• Medicine: A public health study addressing the risk of a certain behavior (e.g., smoking) could present data in a large category, such as "Behavioral risk factors," to emphasize the impact on overall health and encourage the adoption of healthy behavior.

• Culture: In the world of cinematography, a film studio could promote a specific film genre, such as "Action movies," by presenting a variety of highly-rated films in a broad category. This could suggest that all action movies are guaranteed to be of high quality.

• Investments: A financial consultant may attempt to convince a client to invest in a broad category of assets, such as "Real estate," by presenting the historical successes of this category. They could argue that, in the long run, all real estate investments have had significant returns.

• Sports: In sports advertising, a brand promoting sports equipment could present the high-performance results of athletes in a broad category, such as "Performance athletes." This could create the impression that their products are the preferred or most used among top athletes. The "Category size" principle reveals how presenting information in a specific way can influence people's perception and decisions.

### 4. Solutions for the efficient use of the two principles of behavioral economics

For the efficient use of the two principles of behavioral economics, time reduction and category size, various strategies and solutions can be implemented depending on the specific context (Villeval, 2016). Here are some suggestions:

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Time reduction:

Immediate rewards: In designing systems or programs, offering immediate rewards can stimulate desired behaviors.

Instant feedback: Providing immediate feedback on decisions or actions can improve understanding of consequences and influence behavior.

Category size:

Education and information: Ensuring a clear understanding of the diversity and details within a large category can help people make more precise distinctions and informed decisions.

Category segmentation: Breaking down a large category into smaller subcategories can make information easier to manage and process.

Common strategies:

Clear communication: Using clear and accessible language, avoiding complicated terms or concepts, can facilitate understanding and decision-making.

Long-term incentives: Encouraging and rewarding behaviors oriented toward long-term benefits, even if not immediate, can counteract the allure of immediate rewards.

Adaptability:

Personalization: Approaching different audience segments based on their specific preferences and trends can increase the effectiveness of used strategies.

Monitoring and adjustment: Depending on received feedback and changes in behavior, it is essential to continuously adjust strategies to maintain relevance and effectiveness.

Implementing these solutions requires a deep understanding of the target audience and the specific context in which they are applied to ensure that the principles of behavioral economics are properly integrated to positively influence decisions and behaviors.

## 5. Conclusions

People tend to favor immediate rewards over future ones, and their value decreases as the delay increases. Solutions include offering immediate rewards and rapid feedback. Additionally, people perceive outcomes from a larger category as more likely than those from a smaller category. Solutions include education and information to make clear distinctions, category segmentation, and adaptability through personalization and continuous strategy adjustment.

These principles can influence human behavior and decisions and can be used in various fields, from designing systems and programs to communication and marketing. The efficient implementation of these principles requires adaptability, constant monitoring, and adjustment based on the specific context and target audience.

Impact on the decision-making process of the two factors, time reduction, and category size, can be complex and may vary depending on the specific context. Here is a more detailed look at their impact:

The "Time Reduction" principle has a positive impact as it provides an immediate reward or within a short time frame, which can stimulate decision-making and actions. People are often inclined to choose immediate rewards as they offer satisfaction and quick gratification. However, this principle also has a negative impact because it can contribute to a preference for options that offer immediate benefits, ignoring or underestimating future rewards. This can lead to impulsive decisions and may not always be in the long-term interest of the individual.

On the other hand, the "Category Size" principle has a positive impact as it increases the perception of safety and stability, providing a broader framework or a general perspective. People may

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have greater trust in options within a larger category and may feel that they are making more informed and less risky choices. Still, this principle also has a negative impact: it can lead to excessive generalization and stereotyping. Thus, people may not make clear distinctions between options within a large category, leading to decisions based on simplified perceptions and ignoring significant details. The impact of these factors depends on how they are used in a specific context and how they interact with the individual characteristics of the decision-maker. It is also important to note that people may react differently depending on circumstances and the complexity of the decision.

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