

A New Approach to Behavioral Economics: How to Take Language Preferences into Account in Everyday Conversations

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Abstract

This paper explores the integration of social and moral preferences in economic decision-making, highlighting the significance of fairness and ethical considerations. Models like Fehr and Schmidt's inequity phobia (1999) and Bolton and Ockenfels' ERC (2000) demonstrate that people value relative distribution and fair treatment. Additionally, moral preferences, influenced by strong ethical principles, can lead individuals to act against their financial interests, as seen in deontological ethics (Kant, 1785). The impact of language on behavior is also examined, with framing and metaphors playing crucial roles in shaping perceptions and actions. Liberman et al. (2004) provide evidence that linguistic framing affects cooperation. This paradigm shift in behavioral economics emphasizes the need for new models and experimental setups that consider language's influence on preferences and decision-making, aiming for a more holistic understanding of human behavior in economic contexts.

Keywords

Behavioral Economics, Social Preferences, Moral Preferences, Normal-Form Games, Language-Based Preferences, Paradigm Shift, Experimental Economics

Introduction

Within the context of normal-form competitions with monetary rewards, this study surveys the literature on models that attempt to explain human behavior in social interactions. The impact of cultural and ethical preferences on making decisions is first investigated. Next, the article explores new studies that show how language influences behavior, especially when it brings up ethical issues. Our main point is that there has to be a new model and set of experiments in behavioral economics to account for language-based desires. This change signifies a significant advancement in comprehending how people act in economic situations.

Literature Review

Social and Moral Preferences

When making a choice, cultural habits include thinking about how it will affect others. The inequity phobia model by Fehr and Schmidt (1999) and the ERC (Equity, Reciprocation, and Competition) model by Bolton and Ockenfels (2000) are two crucial models in this field. In these mathematical frameworks, the relative distribution of payoffs is just as crucial as the payoffs for people to determine their utility. The

results of experiments back up these theories, demonstrating that individuals are prepared to give up some financial advantage in exchange for more fair treatment of others.

By factoring in moral concerns, moral preferences broaden the scope of social preferences. People with strong moral convictions may behave in a manner that goes against their financial interests if it means staying true to their ethical principles. One example is the idea of deontological ethics, which has been shown to impact economic decision-making (Kant, 1785). This theory considers norms or responsibilities more critical than repercussions when evaluating an action.

Language and Moral Activation

An expanding subfield of study within psychology and economics is concerned with how the language used to explain activities may affect behavior. The analysis that Tannen (1993) did on framing and the ideas that Lakoff (1980) developed on metaphor both emphasize that language influences how we see the world around us. In the context of economics, the framing of acts as transactions that are ethically laden may trigger ethical issues that would otherwise stay dormant. For instance, referring to a monetary transaction as a "gift" rather than a "payment" might elicit sentiments of kindness and empathy in the recipient.

The concept of linguistic framing has been shown to influence decision-making, as evidenced by experimental investigations significantly. A study conducted by Liberman and colleagues (2004) showed that participants were more cooperative while playing a game that was referred to as the "Partnership Game" as opposed to the identical game that was presented as the "Wall Street Game." The fact that this is the case shows that the style of speech used to express a situation might influence people to behave in a manner consistent with certain societal norms and beliefs.

Towards a Paradigm Shift: Language-Based Preferences

Behavioral economy reflects a paradigm change from conventional models, which only concentrate on monetary benefits and static interests. This shift is brought about by incorporating language-based preferences into the behavioral economics theory. This new approach recognizes that desires are fluid and sensitive to the surrounding environment and are impacted by how options are presented and framed. The establishment of fresh conceptual models and experimental designs capable of capturing the complex impacts of spoken language on choice-making is required as a result.

Emerging Models and Experimental Setups

Researchers are working on new models that include linguistic structuring into more conventional economic paradigms to account for the impact of language-based choices. These models provide a more all-encompassing view of human conduct by considering how language might activate moral concerns. To put these theories to the test, experimental settings are also developing, drawing on linguistic and psychological methods to control and quantify the impact of language on monetary choices.

Conclusion

A significant shift is about to occur in behavioral economics. Unlike conventional economic models, this one considers the influence of language selection on decision-making in social relationships. To completely comprehend the complex ways language influences human behavior, new methods of theory and experimentation are required due to this paradigm shift. Incorporating social, moral, and linguistic

aspects will lead to a more complete and realistic representation of how individuals act in economic settings as academics delve further into this study area.

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