Households in Geo-Economics-Psychology of Behavior and its Role in Economy

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Abstract: In this article I propose a structural point of view of households’ behaviour by using geo-economics. Though geo-economy is currently in state of development it allows to redefine main principles of perception of processes in economy. I propose a structural view of households’ algorithms in micro- and macroeconomics, providing basic principles of their logic system that can be implemented by any economy structure or agent to fully understand human’s behavior thus building a more accurate development strategy. In this article different existing theories are reorganised into one to provide a full image of households’ economic behavior and their role in the economy of their country.

Key words: Geo-Economy • Behavior • Household

INTRODUCTION

In economic theory, households are the subject of much dispute. This is the least rational economic agent having the greatest influence in the economy. To make calculations simpler, experts and theorists have been neglecting psychological aspects, though the author believes that this means a deliberate rejection of the ability to understand the whole system of geo-economic impacts. The impossibility to take into account the human psychological behavior in the economy within any school of economic thought has led to stressful development concept that everyone has the same system structure. These rises and falls have been called a natural part of the economy, just as the ebbs and flows are in nature. However, in the analysis of any phenomena, we can reveal the logical chain and causes that have led to the current state of affairs. In this article, the author will try to provide a description of the economic psychology of households. This is a prerequisite condition for understanding the geo-economics, as it is the fundamental principle of the economy.

To date, there is no clear system of human psychology and its representation in the economy. Although throughout the history of the economy you can find various observations on psychology as an integral part of economy. For example, Homer, a blind itinerant singer who lived in VIII century BC, wrote "Me to you and you to me", giving by this phrase a vague definition to the essence of economic relations. Adam Smith in his famous work "An Inquiry into the Nature and Causes of the Wealth of Nations", had observed that people receive different wages for the work of the same complexity [1].

Human's Inner Equality: Let us start the discussion of the human psychology perception system from the concept that everyone has the same system structure. This is confirmed by Paul Ekman's researches, who is the famous American psychologist who has been studying emotions and their relation to facial expressions in many countries for more than 40 years.

He confirmed that "emotion expressions may indeed be universal" [2]. This means that all people on the planet have common features of psychological functioning. Hereinafter, we take general principles for building relationships within the existing system, without the useless individual external shell that may have different names, but in its essence it is nothing more than a manifestation of a general principle with some emphasis on the striking features of its manifestation.

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Emotion reflects systematic processing of the large amount of information coming from all the senses available and "expresses the estimated personal attitude to the emerging or potential situations, to their activities and their manifestations in them. Actually emotions have a clearly expressed ideational nature. This means that they are able to anticipate situations and events that really have not come yet and emerge with the ideas of experienced or imagined situations. Their most important feature is their ability to generalize and communicate. This is why the emotional experience of any individual is much broader than their individual experience. It is formed as a result of emotional empathy in communicating with other people and in particular transmitted through works of art" [3].

Ray Birdwhistell on the other hand claimed that all the social aspects are acquired through their adoption from the more experienced representatives of the society [4]. Although this opinion is fairly common, the author supports Paul Ekman's idea of emotion "display rules." "These rules adopted as a result of social learning and often varying from culture to culture determine the way we should manage our facial expressions and who, when and to whom may show this or that emotion" [2]. You can clearly see it in the picture below.

Fig. 1: Display of emotions in society

Such a separation makes it possible to create a universal system, as well as separation into conscious and unconscious, with various deviations falling to the latter, makes the system more stable.

**Human’s Rationality in Economics:** Studying households as a separate economic agent, the author concluded that the assumption of their economic rationality is not complete. Households and other economic agents are two distinct and interrelated functioning systems. People are irrational from the economic point of view. Their rationality depends on internal factors, which is why it may seem at times that they are acting rationally in terms of the economy, when in this period of time their internal aspirations simply coincide with the vectors of the overall economic system. "The idea of groups acting to ensure their group interests is logically derived from the widespread assumption of rational behaviour, aimed at ensuring their own interest. In other words, if members of any group have a common interest or goal and if all of them would feel better if this goal is achieved, it is considered that it logically follows that the individuals that make up this group, if they are rational and pursue their own interest, will act so as to achieve this goal" [5].

Another important element in understanding the behavior of households in the economy has been described by Abraham Maslow in his article "The Theory of Human Motivation" published in 1943. Maslow's hierarchy of needs is widely known, taught at all universities of economy and, unfortunately, its practical application is not immediately evident. He also acknowledged that "the introduced integrity of an organism must be a foundation of the theory of motivation" [6].

If you take and extrapolate Maslow's hierarchy of needs to the market opportunities, you will see the following.

![Market possibilities regarding the pyramid of human needs](image)

Fig. 2: Market possibilities regarding the pyramid of human needs

As for the market, the more developed a society is, the more new opportunities it has, both in terms of raising funds and profit and in terms of employment of human labor for the organization of previously neglected niches in the economy. Maslow's hierarchy of needs and Paul Ekman's research are universal in nature, belonging to a single category of human psychology that makes it possible to generate some synthesis between them.
The picture below shows that Maslow’s hierarchy of needs is combined with emotional responses studied by Paul Ekman. I have also divided all the needs into two levels. The area directly responsible for the restoration of natural resources of a body is marked brown. It is controlled largely at an unconscious level and here it is the "display rules" are the most difficult to use, as in critical moments an individual's mind is overwhelmed with idea of survival. Further levels represent a combination of sources for restoration of mental and spiritual resources of the individual that are also essential for active functioning of the body.

It should be noted that while meeting the lower needs, new demands can make adjustments in the allocation of the resources available, as in this case an emotional response will be higher. From this point of view the use of available resources, even in an irrational way, will bring more benefits to the individual. Accordingly meeting the more complex needs is not only more money-consuming, but it can also bring a greater level of satisfaction (the emotional profit).

When developing, the individual stops at a certain level meeting their needs based on internal (physical, mental and spiritual) and external (money) resources. The latter (money) plays an important transaction role performing a transition to the use of labour and resources to meet their needs.

It is for this reason that many households have inflated many of the unstable economic situations to the size of crises. A striking example is the financial Panic of 1873, 1884, 1893 and 1907 in the United States. "The panic began with an outflow of money in a period of relative prosperity when banks have already distributed loans to the fullest" [7]. The logic of households’ actions is simple. Being a separate economic system aimed at meeting their own needs, they were not willing to give up their money for free instead of using it for the reproduction of their internal resources by satisfying their needs. In other words, they did not want to assume liability for erroneous decisions of other economic agents.

So we see that the development of households is forming the market and is essential for it. At the same time compensation of the irrational general economic behavior of households is an expensive undertaking in terms of the overall economy, as an individual is the central and most important economic agent in the economy. This is due to their amount and the fact that all the money in circulation are owned by households, but separated from them by legal formalities and the time of entry into circulation.

Thus, there is a neverending outflow of the stock from the economy and its investment back. It depends on the information available to households.

"Thinking, being a conscious activity, is organically linked with the information processes at unconsciously psychic level" [8]. The figure shows that households are rational in their own way. Depending on market news, the psychological multiplier can be arbitrarily divided into five types, ranging from the rush or expectations of profit to highly negative information about possible losses of their own resources. Let us have a closer look at this mechanism. Depending on the news there is a redistribution of funds in the disposal of the households.
Separation of the picture with two pluses indicates the appearance of information on the most profitable investment. A rush begins and the resources available begin to flow in that very direction further exaggerating the feasibility and usefulness of this investment. Having abstained from investing, an individual bears shadow costs, whereas participation in the general trend of gaining profit gives them a sense of security, community and profit.

The next division depicting plus and zero suggests that the information received on a possibly profitable investment does not differ much from the other opportunities provided by the market. In this case, not all individuals reallocate their resources in favor of this choice, but those for whom this choice or scope is closer to their own knowledge and preferences.

The case of a neutral attitude to news about changes. It is a common case associated with either a lack of perception/understanding of the impact of this change on the individual, or their interests are not affected.

Negative news. Upon receiving such information, households are trying to minimize their costs. They are trying to salvage the money affected by waiting for the stabilization of the situation or by withdrawal of resources from the project, if appropriate in terms of withdrawal costs.

Negative information is accompanied by panic and sudden withdrawal of affected funds from this sector. But since now almost all sectors of the economy are somehow interconnected, the scale of the information itself plays a significant role here. If it affects the big players, then a crisis occurs, if small ones, then it ends up with the bankruptcy of one or several companies.

If the market is stable and the amount of resources involved in accumulation is rising it also raises the confidence multiplier, for there are resources to cover all of the human’s needs. “We can also think of the confidence multiplier, like the consumption multiplier, as a result from different rounds of expenditure” [9].

It can be concluded from the foregoing that people will act rationally in terms of the economy as long as the system facilitates increasing the capacity to use the resources available - physical, emotional, mental and physical ones. An individual is a unique system of a large set of simple relationships divided into internal and external ones and being of great importance to the economy. At the same time the internal and external systems of relationships are directly dependent on each other.

**Households’ Interrelationship:** Satisfaction of the needs of an individual together with their emotion display rules is form their representation in society, which is estimated by the other participants. Estimation is always followed by their own positioning, thereby forming clusters of behavior, needs and possibilities of labor input into development or destruction of the common system.

![Fig. 5: Shaping of the evaluation process between individuals depending on their needs](image)

The figure shows the interpretation of the Maslow hierarchy of needs in building relationships between individuals. The growth of opportunities is accompanied by evolution of human needs expanding market opportunities to meet them. In other words, the transition to a new level of needs affects the lower levels.

The figure shows this phenomena as a possible extension of AB needs to A1B1. Depending on the resource capacity of the individual, their other needs will require more funds to meet their needs of the new level. However, in the absence of free resources, an individual can logically suppress the expansion of their previous needs, as in this case, the new level of needs will bring them more joy at their satisfaction. Increased satisfaction is achieved not only through internal resources, but also by an increase in the estimated impact of other
individuals. In the figure above, the area of one person being estimated by another is shown as A1SDD1 area. This area is responsible for interpersonal relationships, group formation and due to this, based on social attitudes in the country, it is possible to build the society needed by the state.

In estimating another person, everyone compares the levels of needs and labor employed. "Information is always embodied in the medium and therefore exists in a code form only" [8].

Fig. 6: Evaluation orientation in society according to the pyramid of human needs

Emotional response to new variations of this code, which is a variant of the redistribution of society's resources to meet the needs to restore resources and solve problems may be different. The system of forming an emotional response to unconventional solutions for resource allocation was described by Farr and Hatcher in their "altruistic punishment" experiment [10].

All the participants of the experiment were given 20 money units and each of them could donate from 0 to 20 to the shared project. They could keep the rest money. When each player contributed to the project, the whole group won, though there was a risk of some individuals trying to benefit from keeping their funds from investment in the shared project. Another interesting point was that the participants had the opportunity to punish the "parasite" for their own money.

The outcome of the experiment has exceeded all the expectations. Frequency of punishment was as follows: 84% dared to punish 1 time, 34.3%-5 or more times and 10%-10 or more times.

The other side of the experiment was interesting as well. After a ban on the use of punishment, the frequency of cooperation tended to zero. This means that individuals are seeking to increase their own capabilities for resource allocation. However, given that this was not an immediate outcome, but appeared from game to game, one can say that this formed a social setting due to punishment of people showing more generosity. They could continue until they were excluded from the society or until their resource potential was reduced to inability to repeat the action, thereby forcing them to give up the higher level of satisfaction of their needs[10].

Extrapolating this experiment, taking into account that the new level of needs involves more labor from the individual and the depth of saturation means the resources used, you will notice that the society may have an ambiguous attitude to the additional use of resources. If it is justified or tolerated, then there is no punishment. However, if the use of resources is unjustified, the individual experiences "shadow costs" of possible satisfaction of their own needs, which causes a negative emotional response and, after "display rules filtering", finds its reflection in actions to prevent any further such incident-moral pressure, organization for the legal ban of this redistribution, violence, etc.

The choice of the level of tolerance is determined by economic opportunities, creating a buffer zone of emotional response. Since in this case they have a safety margin to meet the needs of the higher level. However, the "display rules" by the response to the non-standard resource allocation are established by the dominant power in society being a rule of law (this is the state in most cases), thereby determining the attitude towards the allocated resources. This makes it possible to determine the direction of the economy of the country to maintain existing orders (a waste of resources is a luxury), search for new solutions, ideas and investment targets.

Households has formed the economy to meet their own needs and solve common problems that makes them the main economic agents in terms of the driving force of economic development. Their number and impact on the economy cannot stand aside in principle and geo-economics allows to determine their place and role, as well as ways of understanding and compensation for the consequences of irrational behavior of households.

REFERENCES