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Covid-19 Pandemic and the role of behavioral economics

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Abstract

The New Normal has become a buzzword thank to the Covid-19 pandemic. The realization that the pandemic is to persist has tended people to redesign their livelihood opportunities to realize not only a New Normal but a Better or Different Normal. Behavioral Economics, a new branch in economics that mixes economics with other disciplines in an attempt to present real economic behavior of man, has been found to be relevant in explaining the behavior of economic agents in times of Covid. This paper intends to focus on the certain aspects in behavioral economics which the policy makers find useful to design their strategies in dealing with the spreading of the Covid-19 pandemic.

Keywords: New Normal, Better Normal, Different Normal, Rationality, Present Bias, Status Quo Bias, Optimum Bias, Framing effect, Affect heuristic, Herding Behavior, Infodemic

Introduction

It has become obvious that Covid-19 is to stay with us for some more times even for two years. It has become yet another disease that regularly haunts the human life by testing the immunity of us, sometimes aggravating the existing critical disease of some people, leading to their deaths. Rarely deaths due to the sole reason of Covid-19 have been reported elsewhere in the world, making it concrete that Covid-19 can best be an immediate reason for the already ill-fated people. But the news that the success rate has been going up is a sigh for many especially the administrators and health workers. The so called New Normal has almost been fully accomplished with lockdowns being lifted and people have been allowed to move freely albeit with certain peripheral and policy guided hurdles. Masks have become the hallmark of human

beings and sanitizer is an essential cosmetic today. Social distancing has become the norm although not been practiced as seriously as it ought to be especially in certain regions and among certain communities. The long wait for preventive Vaccine is uncertain despite self-claimed success at developing such vaccines by leading countries.

Unlike many diseases including community diseases which ravaged us in earlier times, Covid-19 has had far reaching and wider consequences. Its unprecedented spreading character and the fear that it has created in the minds of people, and the challenges it has brought about to the economy and the health fields seem to have been manifold and unlikely to be resolved in the near future. Most of the economies have witnessed dwindling output, income and employment over the last six months since the surfacing of the first case in the Vaughan Province of China. Some countries have been deadly affected by the Pandemic whereas some others especially Sweden and Switzerland have been able to withstand the spreading of the Virus to a greater extent. It could be observed that countries where social distancing and other behavioral etiquettes are in place have been able to speedily come back to normalcy. This calls for an urgent revisiting of the mitigating strategies of this pandemic apart from the standard and conventional procedures recommended and practiced by the World Health Organization which are predominantly aiming at treating the Virus induced health issues rather than taking precautionary measures to effectively contain the spreading of the virus particularly to ensure that the condition does not become a community spread. It is here an important branch in economics, the behavioral economics, an emerging field of studies which goes along with the societal and economical aspects of the human beings rather than just focusing on the technical attributes of the economic heavier of human beings, becomes more relevant. This paper is an attempt to look into the how the tools in behavioral economics can be applied or have been in use indirectly to douse the flames of the covid-19 pandemic in areas as wide as economy, health and policy making. This paper is structured as follows: the following session devotes on elaborating the concept of New Normal in spite of explaining of how it is diverse from the existing normalcy. the third sessions dwells into the ways by which devices in behavioral economics and its theoretical premises could be effectively used to elucidate the commonly visible behavioral changes witnessed in economic agents particularly consumers and producers. The penultimate session deals with

certain ‘biases’ as explained in the context of covid-19. The final session concludes with certain positive notes.

On the ‘New Normal’

Simply put, ‘New Normal’ refers to the life after Covid-19 or the life with Covid-19, and this has been the connotation to which this concept often gets applied in the literature on the pandemic. Literally, it paints the impression that Covid-19 has replaced the Pre-Covid Normalcy by the Post-Covid new normalcy. In fact, when the virus was erupted, we were misled by the mere fact that with lockdown and social distancing the spreading of Virus could easily be checked and the system would come back to normalcy as before. But quite contrary to this early perception of the spreading nature of Virus, it has become obvious that Virus would not leave us and we would have to live with Virus, and this realization has led to the restarting of economic and social life amidst the fear of a spreading virus. In fact, the New Normal connotes a life with Covid-19 rather than a life after Covid-19. New Normal calls for certain behavioral changes from all stake holders including economic agents like consumers, distributors and producers. This is because the virus has deadly effect not only on the life of human being but on the livelihood of human beings. The lockdown which was initially thought to be a panacea to tide over the crisis has turned out to be most disastrous as all economic activities faced set back, and people started depriving themselves of essential income, output and employment avenues. It made us alert as these kinds of lockdowns have led to more deaths than what Virus would have alone made.

Before we think of ‘New Normal’, it would be interesting to ponder over what has been the ‘Normal’. When we were ‘Normal’, we used to go to offices often in public mode of transport, worked there till the evening, students used to attend schools, employees their workplaces. We didn’t wear mask, we shook hands of others, greeted coworkers and customers with smiling faces. We had social gathering and social functions in which we used to participate without fear or hesitation. None would look at others as potential carriers of the deadly virus. In ‘New Normal’, we behave as if the circle around us is circumventing with the presence of deadly virus. We keep social distancing and sanitize hands frequently. Mask has masked us, and corona virus has become an excuse for all misdeeds and undoes. New Normal envisages a situation where we are expected to continue what we had been doing in pre-covid period but with a little change or

in a new framework and pattern. In that sense, Ne Normal has more to do with the behaviors of economic and social agents, which need to be or have been reflecting in their dealings viz. economic, social and political. interestingly, this new normal does not seem to be envisaging any perceptible improvements in the economic and social conditions of human beings rather they are expected to behave in such a way as to insulate themselves from the impending intrusion of the virus into their body and to protect others from the passing of virus from you if you are infected by the virus. The rest of the things viz. your work and dealings with others are expected to persist as before. If we look around now, we see some sectors as thriving even in times of covid-19. for instance, online transactions, online trading, online classes including webinars, establishment producing and selling online education accessories, software companies engaging in the production of online platform tools and managing them etc. appear to be fishing in troubled waters, of course. For them, at least, what we refer above as new normal does not seem to be normal rather much better than the new normal, rightly put for them, it is 'better normal'. Further, for such groups as referred above, the situation would be 'better normal' as they experience in unprecedented scale up in their turnover, profits and revenues. Many such firms have witnessed running down of their inventories thanks to the escalating demand for their products. It is reported that some software giants have started hiring more workers to meet this unexpected increase in business. New normal is to be seen in the way of the organization of social and economic life including mainly the way we work. The new normal has been shaped more by the constraints created and exacerbated by the Virus rather than our choices and preferences with regard to the kind of things to be bought or the kind of job or the condition of jobs to be accepted. Nevertheless, the already set in complacency in dealing with the Virus raises eyebrows because it compels us to ask ourselves whether the old normal would be reset again instead of the so called celebrated new normal. The above said fear is not baseless as we have had in history some instances of old normal revisiting again as if we have not learnt enough from the experience to retune ourselves to face the future. For instance, the financial excesses which had culminated into the financial meltdown and global financial crisis in 2008-09 was thought to have been something which would tempt financial and economic stake holders to restrain themselves from indulging in bubble like economic activities. But, much to the despair of many, unfortunately, we have been again lured into the financial dealings of mammoth bubbling nature, and finally financial turbulence have started encapsulating the real economy, creating

troubles for the economic agents and households. The plight of many economies even before the Covid-19 set in clearly throws light on this repeated failure to learn from the past experiences.

Now, in 'New Normal', we know what is 'new', but we are clueless about what is 'normal'. When we indirectly glorify 'normal', and waiting to adapt ourselves to be 'new normal', the pertinent question is: have we had such a 'normal' good life? Or is there anything to be glorified in being 'normal'? The fact that we had never been so 'normal' even in the pre-Covid days might have led to create a feeling that in the post-Covid times, we ought to be not 'new normal' but 'different normal'. Different normal refers to taking back our life to normalcy with much positivity compared to pre-Covid day normalcy. For instance, we need to emphasize much on sustainability issues, and we must learn how to coexist with other beings. In other words, post-Covid normalcy should be an era of coexistence which must involve developing new sources of green energy and new ways of respecting the workers of all kinds, including the work of cleaning and caring.

Behavioral economics and New Normal

Obviously, behavioral economics, a branch in economics which deals with the application of psychology and other disciplines to economics to explain how the economic agents viz. consumers, firms, institutions and governments behave as they do in real life, quite different from what the rational based mainstream rigid economic theories would predict, can immensely help policy making with regard to behavioral patterns to be followed by people in a meticulous effort at containing and preventing wide spreading nature the villainous virus. As we have been observing ever since the germination of this Virus, the Covid-19 has spawned unprecedented changes in the social and economic behavior of people thanks to their attempts to simultaneously strike at the pandemic and continue to struggle for their livelihood. Apart from the hygiene behavior such as social-distancing, stay-at-home policies, work-at-home policies, hand washing and avoiding touching faces, people as economic agents appear to have been adapting themselves to new kinds of behavioral patterns, which have already been producing its influences on the key economic variables viz. income, employment, output and business confidence. Arriving at feasible economic decisions based on rationality seems extremely challenging for all economic agents in Covid times, and unless decisions are taken keeping

Covid in sight, the costs of such decisions are likely to outweigh their benefits, resulting in inexorable and irreparable losses in future in terms of the deterioration in economic and health status not only at individual level but also at macro level.

Economics, as more than social science discipline, presumes people taking decisions based on rationality assumptions like for the consumer maximizing utility is the mantra while for firms it is maximizing profit. In simple technical parlance, a consumer maximizes utility when price that he pays for a product becomes exactly matching with the utility that he squeezes from it. Likewise, a firm is said to maximize profit when the additional money spent on an additional product becomes exactly equal to the additional revenue that product brings in. For these things to happen in real life, both the producer and consumer must be acting cent percent rationally, which is, by any count, unlikely to happen even in normal conditions, not to speak of in Covid times and its aftermath of new normalcy. Therefore, when people confront with an extremely difficult condition created by the pandemic, the rational economic decisions are likely to be rendered either ineffective or inoperative, and hence the principle of ‘bounded rationality’ as described in the realm of behavioral economics may seem to be a relevant strategy to mitigate the consequences of the pandemic. It is true that policy interventions suggested on the lines of behavioral economics can help economic agents in taking better decisions with regard to their choices and preferences apparently to deal with the exigencies arising out of the pandemic without jeopardizing their livelihood opportunities (Soofi, Najafi, & Karami-Matin, 2020).

As read above, behavioral economics acknowledges that people are not as rational economic decision takers as the standard mainstream economic theory, mainly the neo-classical economics, assumes. To put it straightly, people rarely do any cost-benefit analysis while taking a decision even in normal condition, not to speak of an abnormal environment created by the Covid-19. Perhaps thanks to this revelation, behavioral economic has recently gained an unprecedented attention in the realm of policy making both in developed and developing nations. Partly this is due to the trespassing nature of this branch of economics as it uses insights from psychology, neuroscience and cognitive sciences to elaborate on how people behave in different circumstances. The premise of behavioral economics is built on the foundation that people are not strictly rational and technical in the sense that they always attempt to emphasize the marginal loss and benefit of an action to arrive at decisions, rather they are more seemed to be ‘biased’ in

taking decisions. Economic agents, consumers, firms, institutions or governments, do not seem to have got infinite rationality and will power to take right decisions always. The decisions are not always based on the analysis of complete or available information so as to enable economic agents to predict the outcome of their actions or policies as accurately as it really happens. These inherent and practical limitations on applying the theory based rationality principles tempt economic agents to use the rules of thumb or heuristics to design and shape their economic decisions. Therefore, for the success of any policy interventions, be it health policy or economic policy or a mix of both as we badly require in Covid-times, we need to identify these points of 'biases' or the occasions of the use of 'rule of thumb' by economic agents in their decision making process and use such biases and limitations as entry points for policy interventions so as to tackle the pandemic affectively. In fact it is here, the behavioral economics finds its relevance. Let us now turn to have a brief explanation of the biases to get acquainted with the application of behavioral economics in our fight against the Covid-19 pandemic.

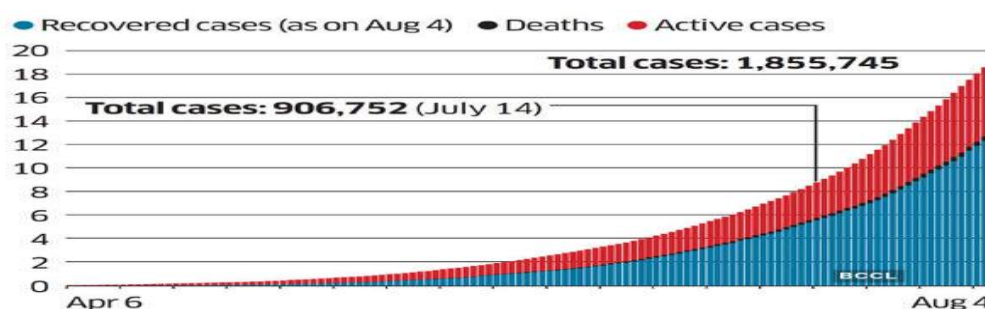
On 'Biases'

Although behavioral economics deals with many 'biases' of economic behavior of people, only a few are seemed to be relevant to explain the conditions which we face in covid-19 times. One of such biases is what we often call as 'Present Bias'. As the name itself connotes, it is nothing but a tendency on the part of the individual or any economic agent to prefer the present condition even if it yields a lesser benefit compared to the future benefit. These people may often be called Myopic Economic Agents, agents with present bias whatever little it gives them in return. For instance an individual wants to take a decision to visit a crowded market to purchase a thing; if he or she visits the market, the benefit is the immediate satisfaction which he or she gets from the consumption of the thing; if he or she does not venture into going the market, the benefit is the long term health benefit arising out of not being infected by the Virus due to the visiting of the crowded market place. A myopic economic agent may prefer to visit the market to buy the product not only in exchange of the money but also indirectly in exchange of the virus as well with long term health consequences, the costs of which may outweigh the benefit from the consumption of the commodity.

Some individuals have inertia in their attitude and living style in the sense that they do not want to change the current status and appear to be absolutely unwilling to accept any change. In other words, they do not want to disturb the ‘equilibrium’, in which they have been settled, whatever benefit it will bring forth. This preference for the current status is often termed as ‘Status Quo Bias’. This bias can be effectively used to pursue economic agents to adopt health enhancing behaviors through the use of what is often called ‘nudgesⁱ’ (Thaler & Sunstein, 2008). A nudge is defined as any aspect of the ‘choice architecture’ⁱⁱ that influences individuals’ decision making in a predictable way without changing economic incentives (Hansen & Jespersen, 2013). In other words, a ‘nudge’ is where the ‘choice architecture’ is modified, without reducing the option available to individuals. Nudges have been used by policy makers in different parts of the world to deal with the spreading of the Covid-19 pandemic. For instance, in UK, ‘happy birthday’-20 second hand washing rule’ is a case point to highlight the use of nudging in containing the escalation of the virus (Bloom, 2020)ⁱⁱⁱ. Similarly, placing hand sanitizer dispensers in more accessible spots and drawing attention of visitors or customers to them with some visual clues or sounds can be regarded as an example of Nudges (UNDP, 2020).

The way the outcome of the expected hygiene in times of covid-19 is yet another example of the use of tool in behavioral economics to combat the drawback of the pandemic. Often, individual choices depend on the way outcome of certain actions is described (Druckman, 2001). This is what is referred to as Framing Effect. An outcome of an ‘act’ can be framed in terms gain or losses: gain-framed messages and loss-framed messages. For instance, the statement that Covid-19 recover rate in India is 77.66 percent is gain-framed message whereas mortality rate induced by Covid-19 is one percent is a loss-framed message. Which message must be opted is something which has effect on the determining the required behavioral pattern in economic agents conducive to fight the Covid-19 pandemic. Nevertheless, too much information causes much worry, and it would be difficult for economic agents to search out the required information which they want. In fact, it is rightly pointed out that in our present fight; we are not only dealing with the pandemic or epidemic but also with ‘infodemic^{iv}’, which is fighting an environment filled with misinformation and disinformation. Really speaking, we badly need ‘myth-busters’ to check excessive information (infodemic) that looms over us even times of pandemic like covid-19.

No sooner than did the government lift the lockdown in many places, we saw people venturing out as if to release their pend-up demand, resulting in a jump in the number of daily covid-19 cases in India. Why has this been happening? This is on account of a misunderstanding that virus would not attack them. This can best be explained with the help of ‘optimism bias and over confidence’ effect as applied in behavioral economics. Optimism bias is defined as people’s tendency to either overestimate or underestimate the outcome of an action in which they are indulged in. Sometimes, people estimate the probability of positive future outcome as greater than the average and that of negative future outcomes as less than the average (Yoshimura & Hashimoto, 2020). Optimism bias seems to have been an important cause of the increase in Covid-19 cases after the lifting of lockdown in many countries. Studies have shown that optimistically biased economic agents perceive their risk of Covid-19 to be low and vice versa (Park, Ju, Ohs, & Hinsley, 2020).



Now we turn to how an economic agent judge risks and benefits associated with an economic or social action like protecting one from possible infection possibilities for not adhering to social distancing or hand-washing behavior. Simply speaking, a person is assessing or judging the outcome based on how it ‘affects’ him. This is termed as ‘affect heuristic’ in the terminology of behavioral economics. It simply states that when the economic agents feel positive (negative) about a behavior, they judge its risks low (high) and benefits as high (low) (Ali, Paul, & Johnson, 2000). For instance, if an individual feel positive about visiting a crowded shopping mall amidst the repeated warning by the government against such visits, he will judge such visits as being not risky and benefits as high. On other hand, if he feels negative about accessing a health insurance policy, he will tend to find fault with such policies (judging its risk high always). This behavioral pattern can have influences on individuals in shaping their attitude towards the repeated advices by the authorities with regard to the pandemic conditions.

It is interesting to note that some individuals do not even believe themselves or they do not seem to have any faith in themselves. They tend to take granted only if others approve it. In some localities particular in low income areas, people wear masks only if somebody else wears it. Sometimes, I witness people going to shops without wearing masks and no sooner than they realize that other have put on masks covering their mouths and nose, they immediate return to their homes to wear the masks. This is nothing but what is ‘herding behavior or social influence’ as explained in the behavioral economics. Herding behavior occurs when people consider a certain behavior to be good or bad based on the behavior of other people and mimic their observed behavior (This is somewhat akin what we often discuss in consumption function theories in the name of the relative income hypothesis or demonstration effect). If you live in a place where your neighbor always stays inside the home, you are more likely to show adherence to stay-at-home policy. Similarly, social distancing shows being adopted by shops and offices can have good effect on visitors in adhering to the policy of social distancing. If the herd behavior itself signals negative things, then the whole system will be jeopardized to the detrimental effect of the Pandemic.

Concluding remarks

Having lived with the pandemic for the last six months, it has become evident that it is not a health issue alone, rather is something which intrudes into the social and economic life all human beings. Perhaps, for the first time in human history, such a disease created by an invisible enemy has been making life and lives troublesome for all people and all countries alike. Therefore, it calls for not only equipping our health infrastructure so as to fight the Virus. It also reminds us of changing our behaviors to the tune what is required to fight the virus. In this respect, behavioral economics can be used to frame health and economic policy responses of governments and civil societies.

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ⁱ NUDGES play an indisputable role in Behavioral Economics. The expanded form NUDGES may be written as: **i**ncentive, **U**nderstand mappings, **D**efaults, **G**ive feedback, **E**xpect error and **S**tructure complex choices.

ⁱⁱ Choice architecture is the environment in which individuals make decisions.

ⁱⁱⁱ In UK children are told to sing happy birth day song twice while washing their hands.

^{iv} Infodemic are an excessive amount of information (mostly misinformation and disinformation) about a problem.