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Special Issue: Psychology in the Economic World

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Applied psychology follows the premise to use psychological theories in order to develop strategies to overcome problems in various areas of everyday life, such as mental health and disease, education, politics and law, or business management. It includes the areas of clinical psychology, work and organisational psychology, forensic psychology, as well as many other areas such as sports psychology, school psychology, or community psychology.

A vast applied psychological literature on work and business organisations has accumulated, spanning research on personnel selection, training, motivation and job satisfaction, leadership, organisational decision-making and change, job design and safety, etc. Yet, research on consumer behavior and national economics is rather scarce in applied psychology, despite repeated endeavors to establish a field of research joining economics and psychology. Indeed, only in 1999 a special issue of *Applied Psychology: An International Review*, edited by Fred van Raaij, was dedicated to Economic Psychology with the aim of giving an overall impression of this branch of applied psychology. At that time, the special issue was dedicated to introducing economic psychology with papers on consumer socialisation and on consumer decision-making, on the role of macroeconomic psychology, as well as on socioeconomic preferences in a period of political system transformation.

The present special issue is dedicated to the relevance of psychology in the economic world. The basic premise is to present a selection of topics originating from economic psychology and to inform a wide community about this field of applied psychology, which is represented by Division 9 of IAAP. In this issue, eight articles, representing various topics studied in economic

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psychology, using a variety of methods, were collected. The topics cover lay theories on economics, lay understanding of poverty, subjective representations of retirement and decision-making, entrepreneurship and risk taking, financial behavior, including effects of scarcity of products, as well as tax behavior.

In the remainder of this introduction a historical review is presented along with a brief description of the development of economic psychology; then the articles selected for this issue are introduced.

PSYCHOLOGY AND ECONOMICS

Both psychology and economics have long shown an interest in the other discipline. Psychology and economics, and likewise sociology and economics (Swedberg, 1991), have not only extensive common boundaries, but also an overlap in the questions they pose. This gradually gave birth to a new joint discipline: "economic psychology".

Gabriel Tarde (1902), in France, was probably the first to use this expression; "La Psychologie Économique" drew attention to the need to analyse economic behavior from a psychological perspective. He particularly criticised Adam Smith for not having incorporated his knowledge of human psychology—which he had demonstrated in his writings—into his concepts of the economy. The existence of ventures in psychological thinking in Smith's work is described by Khalil (1996) in an essay on "the theory of moral sentiments". Smith did not emphasise the satisfaction of pecuniary, constitutive utility; differing from the orientation of modern welfare economics, he also stressed that self-respect is a chief ingredient of satisfaction.

Hugo Münsterberg (1912), the initiator of this field of thought in the German-speaking world, emphasised the need for close cooperation between psychology and economic sciences, as he began with studies on socio-technology, on monotony in working life, on the selection of staff, and experimental research into the effects of advertising. However, his comprehensive approach was then put in the shade by developments in occupational and organisational psychology.

In the late 1940s, George Katona and Günther Schmölders began to design a psychology of macroeconomic processes. Katona's (1951, pp. 9ff.) view of economic psychology is clearly described in the following statement: "the basic need for psychology in economic research consists in the need to discover and analyze the forces behind economic processes, the forces responsible for economic actions, decisions and choices . . . Economics without psychology has not succeeded in explaining important economic processes and 'psychology without economics' has no chance of explaining some of the most common aspects of human behavior."

Together with Burkhard Strümpel, Katona criticised the economic model of the time as limited:

> The saving rates, for example, seen as dependent on total income, the price level as a function of the money supply, the level of demand as determined by prices. The human being as the active agent at the centre of this dynamic picture is airbrushed out as an anonymous "black box" . . . In fact, however, the human being who occupies the position in between his environment and the economic outcome of his behavior is full of self-will. He is dominated by prejudices, mood-driven, impulsive, and poorly informed. He is exposed to changing influences, but forgets or neglects much of the fruit of experience, even occasionally jettisoning principles and overall concepts of the world. He transfers experiences and the wisdom they bring from one sphere of life to another, and even manages to alter economic expectations when important non-economic events occur. He learns. (Strümpel & Katona, 1983, p. 225)

In their book on the social psychology of economic behavior, Furnham and Lewis (1986) make a useful distinction between economic psychology and psychological or behavioral economics. On the one hand, psychologists try to understand experience and behavior in the economic context, and on the other hand, economists who have found the straitjacket of traditional theoretical principles too restricting, adopt findings from scientific psychology into the formal models. "The ultimate criterion of all economic activities and economic policy is human well-being", as van Veldhoven (1988, p. 53) wrote. He stated:

> In the end, all distribution of scarce means and goods serves the fulfillment of needs and aspirations and the achievement of satisfaction of individuals and groups. Thus, economic reality cannot adequately be understood without the analysis of the subjective and psychological dynamics that underlie and guide economic behavior of both individuals and groups.

From about the 1970s onward, social scientists and economists have emphasised the importance of economic psychology and behavioral economy (Wärneryd, 1988, 1993). Lunt (1996), however, criticises the attempts of economically oriented psychologists who adopt economists' agendas and introduce psychological insight into elaborated economic models. He claims that psychologists should start to examine economic theory to open new lines of collaboration that will allow them to apply their own conception of psychology to economics.

Nevertheless, economic psychology as a discipline has gained considerable momentum in recent decades, especially with the highly influential and innovative research by Kahneman and Tversky and developmental prospect theory (Kahneman & Tversky, 1979; Tversky & Kahneman, 1992).

Recently, psychology and economics have tried to also incorporate biological perspectives, especially within evolution theory (Witt, 2008) and with neuroscience (Lohrenz & Montague, 2008).

Today, economic psychology is mainly concerned with understanding human experience and human behavior in economic contexts (see Kirchler & Hölzl, 2003; Lewis, 2008; Roland-Lévy, Kirchler, Penz, & Gray, 2001). Textbooks on economic psychology usually provide an introduction to the theoretical and normative fundamentals of human behavior and the anomalies of everyday decision-making. Further topics are economic socialisation and lay theories, consumer markets from the perspective of households and businesses, and labor markets (see Roland-Lévy & Adair, 1998). Additional areas on the national level are poverty and affluence, money and the psychology of inflation, taxation behavior, housework, and the shadow economy (see Kirchler, 2003).

CONTRIBUTIONS TO THE SPECIAL ISSUE

In the first contribution by David Leiser and Ronen Aroch on “Lay Understanding of Macroeconomic Causation: The Good-Begets-Good Heuristic”, lay theories of economics are investigated. Although they are not trained as economists, people act as economic agents and are constantly presented with information on economic causality. Economically untrained and trained participants were presented with questions on the relationship between economic phenomena. It is shown that lay people in particular use simple shortcuts, the good-begets-good heuristic, which yields a sense of competence in the absence of understanding of the causal mechanism involved.

The second paper, by Ellen Loix and Roland Pepermans, presents “A Qualitative Study on Perceived Consequences of Poverty”. Here, lay concepts are investigated by a qualitative approach combining focus group interviews and in-depth interviews. Lay people construct cognitive schemes about the consequences of poverty that are comparable to internal and external, stable and unstable attributions about poverty.

The next two papers are related to the topic of retirement. The third contribution is on lay concepts about an economic topic: Christine Roland-Lévy and Sophie Berjot investigate social representations of retirement with students, people in the workforce, and retirees. They elaborate on differences between social representations in connection to age and to employment status. Among these differences, it can be noted that both the students, and adults who are still working, share some core elements in their representation of retirement: retirement is mainly perceived as a well-deserved time to rest. However, the central nucleus of those who have recently retired excludes this idea of needing some time to rest, and focuses more around having less stress, more freedom, stating that the end of work might bring some inactivity.

The fourth paper is also related to retirement, although in a very different type of contribution, presented by Ted Martin Hedeström, Henrik Svedsäter, and Tommy Gärling. "Naïve Diversification in the Swedish Premium Pension Scheme: Experimental Evidence" presents two experiments on choices of fund categories in the Swedish Premium Pension Scheme. In this system, citizens in paid employment allocate part of their public savings to mutual funds. In doing so, they tend to distribute their choices maximally across different stock fund categories. It is shown that this reflects the naïve application of a variety-inducing diversification heuristic.

"Credit Cost–Benefit Associations and Financial Behavior", by Bernadette Kamleitner and Erik Hölzl, focuses on the financial behavior of consumers. Expenditure and credit use involve costs and benefits. The strength of the perceived affective, cognitive, and behavioral relationship between costs and benefits is assumed to determine purchase decisions, credit use, and satisfaction with a purchased good and credit.

The contribution by Luigi Mittone and Lucia Savadori is also related to consumer behavior, especially on the effect of scarcity of products. Two experiments provided empirical support for the scarcity bias, that is, when the subjective value of a good increases due to the mere fact that it is scarce. The authors define scarcity as the presence of limited resources and competition on the demand side (i.e. not enough for two people). Results show that scarce goods are given a higher price by the participants choosing these than by those who do not, compared to the price of the abundant good, despite the fact that both types of participants assigned a lower market price to the scarce good compared to the abundant one.

While the first six contributions mainly relate to lay theories of economic phenomena or to consumer behavior, the next contribution focuses on the labor marker. Anna Macko and Tadeusz Tyska investigated entrepreneurship and risk taking. According to the very definition of entrepreneurship and everyday observation, entrepreneurs are perceived as more risk prone than other people. However, laboratory studies do not provide conclusive support for this claim. In their study, three groups of students served as subjects. One group did not express any intention of starting up their own business in the near future, the second group consisted of students who participated in a special course designed for future entrepreneurs, and the third group was composed of students or alumni who became entrepreneurs before graduating. In accordance with Knight's claim, Macko and Tyska found that actual entrepreneurs reveal the highest, and students who did not express any intention of starting their own business reveal the lowest, level of self-confidence.

The last paper, by Erich Kirchler, Stephan Muehlbacher, Erik Hölzl, and Paul Webley, looks at tax behavior. The authors ask themselves whether easily earned money is perceived differently than money earned by hard work and whether tax compliance differs. While economic theory postulates that prior costs should not affect present decisions, psychological research shows that prior investments of money, time, or effort do matter. In two experiments, participants' taxable income was obtained by different levels of effort. Tax evasion was more pronounced in low-effort conditions. Moreover, the study provides evidence that in tax compliance decisions aspiration levels serve as reference points and compliance differs according to the reference point.

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