

Epistemological criticism of the concept of individualism in conventional economies

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Abstract

This research critically examines the epistemology surrounding the concept of individualism within conventional economics, focusing on elucidating the influence of non-economic factors—namely culture, social norms, and collective psychology—on economic decision-making processes. This study endeavors to uncover the role of these factors in individual economic decisions by employing a methodology rooted in analyzing economic and sociological literature. The findings shed light on the discordance between the traditional notion of individualism and the multifaceted realities of contemporary society, where culture, social norms, and collective psychology significantly shape economic behaviors and preferences. By providing nuanced insights into how these non-economic factors impact individuals' economic choices and actions, this research underscores the imperative for a broader, more inclusive perspective within economic paradigms. This study contributes to a richer comprehension of the complexities inherent in individual economic decisions when viewed against non-economic influences.

Keywords: *Collective psychology, Conventional economics, Culture, Economic paradigm, Individualism, Social norms.*

JEL Classification: B52, D01, Z13

INTRODUCTION

The concept of individualism, which prioritizes individual agency in economic decision-making, has long served as a cornerstone of conventional economics. However, this paradigm faces growing epistemological challenges, as empirical evidence frequently reveals the limitations of individualist assumptions regarding rationality, freedom of choice, and market efficiency. Such criticism underscores the disconnect between economic theories grounded in individualism and the complex socio-economic realities. In these realities, individual decisions are often swayed by external factors, including social norms, institutional structures, and network dynamics, which cannot be overlooked. Therefore, this scientific article embarks on a thorough theoretical investigation to dissect the epistemological critique of individualism, scrutinize the theory's shortcomings in elucidating contemporary economic phenomena, and offer insights towards a more encompassing and representative economic paradigm.

Since the era of classical economic pioneers like Adam Smith, individualism has remained a staple in conventional economic theory. Individualism accentuates the role of individual agents as rational decision-makers aimed at personal gain (Schrack & Running, 2018). It posits that individuals are the primary unit of analysis in deciphering economic phenomena, asserting that the economic decisions made by individuals significantly influence market behavior and overall economic dynamics (Agassi, 2016). This notion forms the backbone of several fundamental principles in economics, including theories of consumer and producer behavior and underlying assumptions in both micro and macroeconomic analysis (Yusanto & Yunus, 2019). Such thinking is instrumental in shaping conventional economics's philosophical and methodological underpinnings. Amidst an increasingly complex society characterized by globalization and the information revolution, critical inquiries have emerged regarding the relevance and applicability of the individualism paradigm within the framework of conventional economics (Weber, 2007).

The existence of individualism within the conventional economic framework undeniably offers a robust foundation for interpreting economic behavior. However, the discrepancy between individualism's foundational assumptions and the complex realities revealed through empirical evidence has sparked several epistemological questions and criticisms. Firstly, the assumption of complete rationality is often linked with individualism, which posits that individuals make decisions rationally to maximize their utility. This is questioned by empirical studies, which indicate that individuals do not always act entirely rationally. For instance, the pioneering research by Kahneman & Tversky (1979b), which introduced prospect theory, challenged the core assumptions of rationality in economics by demonstrating that decision-making often involves cognitive biases and heuristics rather than purely rational calculations. Their findings have led to a wealth of subsequent research exploring how emotions, perceptions of risk, and other psychological factors significantly sway economic decision-making on a global scale.

Moreover, Thaler & Sunstein's (2019) work on "Nudge" illustrates how insights into decision-making irrationality can inform the design of more effective public policies that leverage, rather than assume against, people's natural tendencies. This evidences that economic behavior does not strictly adhere to the rational, individualistic model, even in policy contexts affecting wide populations. This critique is further bolstered by recent studies in behavioral economics, which highlight the significant roles of social context, cultural norms, and emotional influences in economic decisions, often diverging from the predictions of classical individualism theory. For example, research by Tsai et al. (2014) and studies published by School (2018), provide compelling evidence for the necessity of a more inclusive and holistic economic paradigm, one that can encompass the complexity of observed human behavior.

Secondly, market imperfections present another challenge to the individualism concept, which advocates for efficient and transparent markets. However, numerous studies indicate that markets often suffer from imperfections due to information asymmetry, monopolistic practices, or oligopoly situations. The seminal work by George Akerlof (as cited in Bunn, 2020) on "The Market for Lemons" exemplifies how information asymmetry can lead to market failure, with sellers possessing more information about product quality than buyers, culminating in adverse selection. These highly pertinent insights expose critical market vulnerabilities that can undermine economic efficiency.

Thirdly, the dilemma of externalities and market failure further complicates the adequacy of individualism. Its emphasis on the importance of individual roles in economic decision-making often falls short in explaining or remedying scenarios where the actions of individuals or firms have extensive consequences not accounted for in their market transactions. This issue is particularly pronounced in climate change, where global greenhouse gas emissions by individuals and companies contribute to climate change, affecting economies and societies worldwide.

The latest research by Ster (2008) in "The Economics of Climate Change" highlights how market failures, particularly environmental externalities, can have profound global consequences. It illustrates that the social costs of carbon emissions are frequently not accounted for in individual or corporate market decisions. This underscores the imperative for substantial policy interventions to rectify these externalities, such as implementing carbon taxes or emissions trading schemes. Such measures aim to internalize external costs and promote more sustainable practices.

Furthermore, the 2008 global financial crisis is a stark example of market failure and the limitations inherent in an individualistic perspective. The research by Rajan & Zingales (2003), discussed in "Saving Capitalism from the Capitalists," reveals how risky banking practices fueled by individual and corporate incentives can lead to widespread financial losses and necessitate substantial government bailouts. This situation exposes significant vulnerabilities and inefficiencies within market mechanisms. Hence, these instances advocate for a more comprehensive and coordinated approach to address market externalities and failures, challenging the simplistic views of individualism that overlook the complexity of economic and social interactions in our interconnected world.

The premise of individualism, which suggests that markets operate efficiently to allocate resources optimally, is frequently contradicted by the empirical reality of market failure. Stiglitz (1987) extensively discusses how markets can fail to achieve efficiency due to asymmetric information, monopoly market structures, and the inability to internalize social costs. This inefficacy indicates that relying solely on market mechanisms, underpinned by the principle of individualism, does not invariably lead to efficient or equitable outcomes.

Recent research has further solidified this perspective, unveiling that factors like financial globalization, economic interdependence, and geopolitical uncertainties often complicate global market dynamics. These elements amplify the potential for market failure. For instance, a study by Rodrik (2018) underscores how globalization has introduced new challenges for national economic policies, with global financial markets frequently deviating from the efficient market paradigm. This is due to extreme fluctuations and chain reactions capable of triggering financial crises, illustrating global market dynamics' complex and often unpredictable nature.

Moreover, research conducted by Piketty (2015) demonstrates that the accumulation and distribution of wealth, often unchecked, tend to result in escalating inequality in capitalist economies. This trend contradicts the individualistic assumption that markets will self-correct towards an optimal distribution. This research suggests that markets may generate significant economic and social disparities without substantial government intervention, further underscoring the inability of markets to achieve optimality independently.

In the context of externalities, research by Nordhaus (2017) on climate change underscores the market's inability to internalize the social costs of carbon emissions,

wherein individuals or companies fail to account for the full impact of their actions on the environment. This underscores another limitation of individualism in markets, where decisions made without regard for externalities can lead to widespread negative consequences. Through this latest research, the evolution of market failure theory and contemporary empirical findings continue to challenge the principle of individualism in economics, demonstrating that thoughtful interventions and well-designed policies are essential to address market imperfections and ensure market efficiency for the collective good.

Furthermore, the Interdisciplinary Approach has gained increasing importance in challenging the concept of individualism in economics, highlighting the influence of non-economic factors such as culture, social norms, and collective psychology on economic decisions. Recent interdisciplinary research, such as the work by Muthukrishna et al. (2020), investigates how cultural norms and social practices shape economic behavior across different societies. Their findings, which indicate significant variations in behaviors like cooperation, risk-taking, and time preferences across cultural groups, challenge the assumption of a universal model of economic behavior explained by individualism.

Additionally, research by Gintis et al. (2019) emphasizes integrating concepts from evolutionary biology, psychology, and anthropology in explaining economic phenomena, such as resource sharing and market behavior. They argue that a comprehensive understanding of behavioral economics must consider the evolutionary and psychological factors that influence human preferences and choices, extending beyond mere individual rational calculations. Furthermore, studies in behavioral economics by Kahneman & Tversky (1979) offer insights into how heuristics and cognitive biases impact economic decisions, revealing that individual choices often deviate from the rationality posited by neoclassical economic models. Their research highlights the significant role of psychological factors in economic decision-making.

Lastly, research by Thiel et al. (2015) illustrates how collective understandings and local institutions can effectively manage shared resources, challenging the individualistic notion that economic actors solely aim to maximize personal gain. This research demonstrates that systems of norms, beliefs, and social practices can resolve collective dilemmas without market or state intervention. Integrating insights from disciplines such as psychology, sociology, and anthropology provides a more nuanced and comprehensive perspective on economic behavior, underscoring the limitations of individualism and emphasizing the necessity for a holistic and integrated approach to understanding economic dynamics.

This research distinguishes itself from previous studies by adopting an extensive interdisciplinary approach, critically assessing the concept of individualism through the lenses of psychology, sociology, and anthropology. It emphasizes how non-economic factors, such as culture, social norms, and collective psychology, profoundly influence economic behavior. Unlike traditional methods that often separate economic analysis from its broader social and cultural contexts, this study explicitly considers the intricate interactions between individuals and their societal structures. It challenges the conventional assumptions of individualism, which tend to overlook the social and cultural dynamics affecting economic decisions.

The primary goal of this research is to shed new light on economic dynamics by questioning the traditional notions of individualism through a thoroughly interdisciplinary approach. By integrating insights from psychology, sociology, and

anthropology, the study aims to demonstrate how non-economic factors—like culture, social norms, and collective psychology—shape economic behavior and influence market decisions. The implications extend beyond traditional economic theory, significantly contributing to policymaking, business strategy, and a more comprehensive understanding of market dynamics. Therefore, this research expands the theoretical framework of economics and provides practical guidance for designing interventions that can enhance social welfare and economic efficiency in a complex and interconnected global landscape.

METHODS

This research employs a qualitative methodology to understand the application of individualism in economic theory comprehensively. This approach, chosen for its ability to capture the complexities of social phenomena, enables in-depth analysis and the development of holistic explanations of observed phenomena—essential for grasping both the theoretical and practical intricacies of individualism. (Denzin & Lincoln, 2011). Through a qualitative lens, researchers can immerse themselves in the social worlds of their subjects, access participants' perspectives, and uncover dimensions potentially overlooked by quantitative methods (Patton, 2014).

The study relies on an exhaustive literature review to identify and scrutinize recent advancements in the individualism methodology, linking these to economic rationality and assessing their impact on consumer choice theory and the theory of the firm (Hausman, 2007). This literature review entails a methodical examination of pertinent sources to collate insights on the evolution of concepts and current theoretical dialogues, ensuring the analysis remains anchored within the most current intellectual framework.

Data collection predominantly involved in-depth interviews with economic experts, encompassing academics and practitioners. These individuals were selected via purposive sampling to capture a broad range of perspectives on applying and critiquing the individualism methodology (Creswell, 2007). The selection criteria for academics emphasized those focusing on economic theory, especially those with significant publications or research on individualism or related themes. Their expertise is deemed crucial for providing comprehensive and authoritative insights. Academics were chosen based on their scholarly reputation, publications, and contributions to economic discussions, ensuring they possess a profound understanding and authoritative opinions on the subject matter. The interviews, structured to elicit detailed information on experts' experiences, viewpoints, and evaluations of individualism in economics, utilized field notes and voice recordings to guarantee the accuracy and fidelity of the data gathered. This method allows for a rich and nuanced qualitative analysis, offering valuable perspectives on how individualism is interpreted and implemented in academic and practical contexts.

The qualitative data analysis in this research will involve identifying themes and patterns to facilitate a profound understanding of the dynamics associated with the individualism methodology. As Braun & Clarke (2006) outlined, the thematic analysis methodology will be employed to identify, analyze, and report patterns (themes) within the data. In preparing for this study, the development of structured interview questions was meticulously undertaken, drawing upon relevant theoretical frameworks and contemporary research findings to ensure the interviews comprehensively addressed the critical dimensions of the subject matter.

The design of the interview questions aimed to delve into the interpretation and application of individualism within economic practice, guided by the theoretical underpinnings of individualism and economic rationality. These questions were formulated against classical and modern economic theories pertinent to individualism, alongside a critical review of recent literature that either challenges or supports these tenets. This approach allows the research to investigate the manifestation of individualism principles in economic policy, decision-making, and theory.

Moreover, the interview questions sought to capture experts' perspectives on the impact of methodological individualism on the evolution of economic theory and practice. This included queries intended to probe the influence of individualism on the understanding of market behavior, consumer choices, and corporate strategies. Following an exhaustive literature review, these questions were crafted to address significant and thought-provoking topics and facilitate in-depth and reflective discussions among participants. This meticulous process guarantees that the interview questions are comprehensive and insightful and ensures their alignment with the research objectives. By anchoring the questions in established theoretical frameworks and the latest research insights, this study ensures the ensuing discussions are pertinent, evidence-based, and poised to offer fresh perspectives on the application and ramifications of individualism methodology within the field of economics.

This research employs a comprehensive set of triangulation techniques, encompassing data, researchers, theory, and methodology, as suggested by Yin (1999) and Umiyati & Zulfanetti (2021), to safeguard the validity and reliability of the qualitative data. Data triangulation is executed by juxtaposing interview findings with observations, field notes, or other relevant data sources, thereby corroborating the findings through multiple information streams. Researcher triangulation involves the collaborative effort of different researchers in the review and interpretation of data, aiming to diminish subjective bias and bolster confidence in the analytical outcomes. Theoretical triangulation is utilized to juxtapose and assimilate findings with established theories or conceptual frameworks, ensuring the findings' consistency and pertinence to the scholarly literature. Meanwhile, Methodological triangulation employs various methods or analytical techniques in data examination, facilitating cross-validation that fortifies the interpretations of the research (Denzin, 2017; Flick, 2019).

This study acknowledges the inherent limitations of qualitative methodologies, recognizing the challenges associated with the subjective interpretation of data and the potential difficulties in generalizing findings from a confined set of interviews, which could affect the breadth of the conclusions drawn. This awareness has prompted the rigorous application of triangulation techniques and meticulous sample selection aimed at mitigating bias and enhancing the reliability of the findings. However, qualitative methods may not always permit statistical generalizations. The depth and richness of the insights gleaned significantly contribute to comprehending the phenomena under investigation (Maxwell & Chmiel, 2014).

Additionally, the research incorporates a member-checking process as part of its validation strategy, wherein participants are allowed to review and confirm the accuracy of the findings or interpretations derived from the interviews. This process aims to refine the accuracy of data interpretation and reinforce the qualitative analysis's credibility and reliability, ensuring that the findings genuinely represent the participants' experiences and perspectives (Birt et al., 2016). By executing this elaborate validation strategy, the study strives to enhance its methodological robustness, guaranteeing that

the deduced findings and interpretations accurately and reliably mirror the collected data.

RESULTS AND DISCUSSION

Basic assumptions of the concept of individualism in the conventional economic framework

The concept of individualism, serving as the philosophical underpinning of conventional economics, establishes a foundation for interpreting economic behavior through an individual-centric lens. The fundamental assumptions inherent to this concept constitute an economic framework frequently utilized in policy analysis, economic planning, and decision-making processes. This essay will elucidate the core assumptions underlying the concept of individualism within a conventional economic framework. Examining these assumptions gives us insight into how paradigms influence our perspectives on economic behavior and their ramifications in theoretical and practical settings.

Based on research into empirical studies, the author found several basic assumptions of the concept of individualism in the conventional economic framework, including:

1) Assumption of complete rationality

The concept of individualism in conventional economics is predicated on the assumption of complete rationality, portraying individuals as rational decision-makers who aim to maximize their utility or personal satisfaction. Newman & Friedman (1954) argue that the significance of this assumption lies not in its descriptive accuracy but in its capacity to offer "good enough approximations" for analytical purposes, enabling the theory to generate precise predictions. However, this assumption encounters challenges in real-world applications, where individual behavior frequently diverges from complete rationality.

Simon (1955) introduced the notion of "bounded rationality," underscoring that individuals do not always behave wholly rationally when confronted with information complexity and cognitive limitations. His findings challenged the presumption of complete rationality by demonstrating that individuals often resort to heuristics or rules of thumb in uncertain conditions, leading to systematic deviations from classical rational models.

Further insights from behavioral economics, which examines decision-making under uncertainty more closely, affirm that individuals frequently make choices that contradict complete rationality. For instance, research by Tversky & Kahneman (1973) indicated that cognitive biases and emotions significantly influence decision-making processes, frequently resulting in less-than-optimal outcomes. The incapacity of the complete rationality assumption to encompass these phenomena has profound implications, especially in formulating economic policy and predicting market trends.

Regarding economic policy, relying on the assumption of complete rationality may result in recommendations that overlook actual economic behaviors, potentially yielding ineffective or adverse policies. For example, policies disregarding irrational decision-making tendencies might not accomplish their objectives or trigger unintended consequences. Similarly, in market forecasting, neglecting the role of psychology and heuristics in decision-making can lead to inaccurate market behavior

predictions, as evidenced by phenomena like market bubbles or financial crises that elude predictions based on fully rational market models.

Therefore, economists and policymakers must incorporate insights from behavioral economics into their analyses, acknowledging how cognitive biases, emotions, and bounded rationality influence economic decisions and market movements. This acknowledgement of human behavior's complexity deepens our understanding of economics and enhances the efficacy of policies and the precision of market forecasts.

2) *Stable preference assumption*

The stable preference assumption is a pivotal element of the individualism concept within traditional economic paradigms, suggesting that individuals' desires and priorities concerning goods and services remain consistent over time. Highlighted in "Irrational Behavior and Economic Theory," this assumption is essential for analyzing consumer behavior, positing preferences as stable and predictable data crucial for forecasting consumer activities.

Contrarily, behavioral economics' findings contest this assumption, revealing that contextual factors frequently sway individual preferences and may vary over time. Kahneman (2003) and Tversky & Kahneman (1992) have illustrated that psychological and environmental influences significantly shape preference formation, which can be mutable and inconsistently aligned. This challenges the conventional notion of stable preferences, particularly under conditions of uncertainty and swift market changes.

Furthermore, the coexistence of stable preference assumptions and full rationality often falls short in explaining economic decision-making, especially amidst uncertainty. The prevalent rationality assumption inadequately captures how individuals assimilate information and make decisions, as cognitive biases, heuristics, and emotional impacts frequently disrupt rational decision-making. Kahneman & Tversky (1984), in their foundational work on prospect theory, elucidated how individual choices might diverge from rationality expectations due to cognitive biases and heuristics. Similarly, Thaler (2015) underscores the significance of incorporating psychological factors into economic models, detailing the ramifications of these assumptions on economic decision-making.

The implications of adhering to these assumptions in economic policy and market forecasts are substantial. Policies predicated on stable preferences and rationality can misjudge actual consumer behavior changes, leading to erroneous predictions and ineffectual policies. For instance, pricing or tax strategies influencing consumer behavior might falter if consumer preferences are more fluid and swayed by external or psychological factors unaccounted for by orthodox economic frameworks. Empirical evidence from Ainslie & Haslam (1992) and Laibson (1997) supports the assertion that individual behavior often deviates from traditional rational models, accentuating the necessity of integrating a wider understanding of human motivation and preferences into policymaking.

Hence, a nuanced comprehension of preference dynamics and decision-making processes is critical for devising more precise and productive policies and enhancing market prediction accuracy. Merging behavioral economics insights with conventional economic models can forge a robust economic analysis framework, more accurately reflecting the intricacies of human behavior.

3) *Assumption of individual freedom*

Individual freedom is a foundational principle in individualism within traditional economic theories, positing that individuals possess the autonomy to make economic decisions unencumbered by substantial external constraints or interference. This notion is pivotal for the efficacy of markets, underpinning the belief that free markets inherently facilitate the optimal distribution of resources. Frederic Hayek, as cited by Bartley & Kresge (2020), advocates for organizing social affairs to prioritize maximizing society's spontaneous capabilities while minimizing coercion, underscoring the significance of individual freedom for economic efficiency.

This perspective has faced criticism, notably from Amartya Sen, as discussed by Hamilton (2009), who asserts that genuine freedom transcends mere non-interference, encompassing the individual's tangible capability to pursue valued goals. Sen challenges the narrow interpretation of individual freedom, accentuating the necessity of acknowledging the constraints on an individual's capacity to make choices, which diverse socio-economic and political influences can curtail.

The presupposition of unchecked individual freedom often overlooks the impact of power disparities and resource access on economic liberty. In reality, these imbalances can create scenarios where individuals' economic choices are more significantly shaped by market dynamics or predominant economic entities than by personal autonomy, prompting critical reflection on the veracity of market freedom (Stiglitz, 2012). Such circumstances dispute that unfettered markets naturally engender equitable and optimal outcomes.

Moreover, this assumption frequently neglects the role of non-economic factors, such as social norms, power hierarchies, and societal conditions, in constraining individual economic freedom and affecting market results (Sen, 1999). This highlights the imperative for a more discerning and encompassing examination of economic liberty, acknowledging that true freedom involves not only the absence of interference but also the presence of genuine agency (Nussbaum, 2011).

Therefore, while the concept of individual freedom remains integral to conventional economic doctrine, it is crucial to acknowledge and comprehend its constraints. This entails considering how actual economic, social, and political conditions influence individual economic liberty and, consequently, the dynamics of markets and resource distribution (Rodrik, 2018b). Grasping these intricacies is essential for a more nuanced understanding of economic decision-making and market functionality in real-world scenarios.

4) *Efficient market assumption*

The efficient market assumption is a cornerstone of economic theory, particularly within the traditional frameworks emphasizing individualism. This assumption posits that, when left undisturbed, markets will naturally gravitate towards the most efficient allocation of resources, with prices accurately mirroring all accessible information. Fama (1970) eloquently delineated this notion, asserting that markets where prices consistently "fully reflect" available information are deemed efficient.

Nevertheless, the assumption has encountered its share of critiques, notably from the vantage point of behavioral finance theory. Scholars in this domain, such as Shiller (2002), have illustrated that market operations often diverge from the rationality presumed by efficient market models. Shiller highlighted market volatility and speculative bubbles as evidence that psychological factors and collective

behaviors can significantly skew market prices away from their true value, thus undermining the premise of perpetual market efficiency.

The critique of the efficient market assumption holds considerable significance, bearing profound implications for policy formulation and investment strategy. The discord between the tenets of efficient market theory and the actual behavior observed in markets, as articulated by Shiller (2002) in "The Irrational Exuberance of Markets", intimates that markets might not always faithfully represent all available information. This discrepancy raises doubts about the dependability of investment strategies predicated on market efficiency, simultaneously unveiling opportunities for arbitrage and fostering a more nuanced discourse regarding the efficacy and reliability of efficient market models (Malkiel, 2003).

Moreover, the existence of market imperfections necessitates more sophisticated policy approaches capable of addressing and potentially rectifying market discrepancies and failures. The quest for new regulatory paradigms and interventions to augment market efficiency and societal well-being presents a formidable challenge to economists and policymakers alike, as underscored by Stiglitz (2010), who critiqued market failures and advocated for enhanced oversight and intervention to safeguard economic stability.

Consequently, despite its status as a fundamental tenet in classical economic theory, it is crucial to recognize the limitations and obstacles associated with the efficient market hypothesis. The incorporation of critiques and insights from behavioral finance theory, as delineated by Thaler (2018), not only broadens our comprehension of market dynamics but aids in forging a more comprehensive and productive framework for tackling economic and financial challenges. Acknowledging these imperfections is vital in crafting responsive policies and devising investment strategies that are informed and adaptive.

5) *Assumption of invisibility of non-economic factors*

The presumption that non-economic factors are inconsequential in conventional economic individualism represents a notable oversight, disregarding the impact of cultural, social norms, and collective psychology on economic analyses. This viewpoint emerges from the belief that non-economic variables, being challenging to quantify, are often dismissed as irrelevant to economic decision-making processes. Lucas (1978), in his work "Methods and Problems in Business Cycle Theory," contests this stance, advocating for a comprehensive understanding of economics that acknowledges the significant, albeit frequently immeasurable, influence of non-economic contexts within traditional economic theory.

Neglecting these non-economic influences carries substantial risks, potentially resulting in overly simplistic economic models that fail to capture the intricacies of human behavior and economic choices. Recent advancements in behavioral and institutional economics have underscored the critical need to integrate such factors into economic analyses. Scholars like North (1990), who underscores the significance of institutions and norms in economics, and Akerlof & Kranton (2000), who incorporate identity and social norms into their economic considerations, demonstrate the limitations imposed by the presumption of non-economic factors' invisibility.

Acknowledging non-economic factors paves the way for developing more nuanced and realistic economic theories that better reflect the real-world scenario wherein cultural values, social norms, and psychological factors frequently influence

economic decisions. This recognition necessitates that policymakers and analysts include these variables in their frameworks to yield more precise and relevant forecasts, thereby informing the creation of more productive policies considering the complexities of human behavior and social dynamics.

Hence, although the assumption of non-economic factors' invisibility may have initially simplified analyses within a classical economic paradigm, the broader acceptance and incorporation of these elements are imperative. Doing so not only deepens our comprehension of economic phenomena but also enhances the applicability and effectiveness of economic theories in addressing modern economic issues.

Is there a discrepancy between the assumption of full rationality in the concept of individualism and the real decisions taken by individuals in certain situations?

The concept of individualism in conventional economics posits that individuals possess the capacity for full rationality in making economic decisions. However, despite providing a robust framework, this assumption does not always align with the reality that individual decisions often deviate from the expected level of rationality. Factors such as limited information, cognitive constraints, emotional influences, and irrational behavior can significantly impact economic decision-making in the real world. This analysis will explore the discrepancy between the assumed full rationality and the actual decisions made by individuals, drawing support from various empirical studies.

1) Information limitations

Limited information is a pivotal factor that creates a gap between the assumed full rationality in individualism and the actual decisions made by individuals in economic contexts. The expectation that individuals have access to complete and accurate information seldom matches the reality, characterized by complex information dynamics.

Simon (1955), a distinguished economist and psychologist, addressed information constraints and the intricacies of decision-making under uncertainty in his seminal work, "Administrative Behavior: A Study of Decision-Making Processes". Simon introduced the concept of "bounded rationality," posing that decision-making is constrained by limited information, time, and cognitive resources.

"The capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solutions are required for objectively rational behavior in the real world—or even for a reasonable approximation to such objective rationality."

In this quote, Simon elucidates how the human mind's capacity to formulate and solve complex problems is significantly limited compared to the requirements for achieving objective, rational behavior in the real world. This illustrates that individuals frequently face limitations in gathering and processing information thoroughly before making economic decisions.

Furthermore, Arrow (1978), a Nobel Prize laureate in economics, has contributed to our understanding of information limitations in economic decision-making. In his seminal article, "Uncertainty and the Welfare Economics of Medical Care," Arrow argued that economic decisions are often made under uncertainty and limited information, which complicates the achievement of efficiency in resource allocation.

"We have to recognize that in economics we are dealing with a system which contains a very large number of agents, each with a very small store of information and capabilities, none possessing anything like a complete blueprint of the total structure."

This quote conveys that achieving economic efficiency presents a substantial challenge in an economic context characterized by many individual agents operating with limited information. From this perspective, the economic literature highlights the significance of acknowledging and modelling information limitations as a pivotal factor in decision-making processes.

2) Cognitive limitations

Cognitive limitations are a crucial factor in explaining the discrepancy between the assumed full rationality in the concept of individualism and the actual decisions made by individuals. The ability of humans to process information optimally is often hindered by constraints in their cognitive capacity.

Simon, a seminal figure in behavioral economics, introduced the concept of "bounded rationality" to describe this limitation. In his influential work "Models of Bounded Rationality," Simon states:

"Human rational behavior is shaped by a scissor whose two blades are the structure of task environments and the computational capabilities of the actor."

With this quote, Simon illustrates that rational human behavior is influenced by the interplay between the structure of the task environment and the individual's computational abilities. This highlights that when confronted with complex tasks, humans are invariably constrained by their computational capacity, leading to a simplification of decisions and more limited choices.

Tversky and Kahneman, two eminent scientists in behavioral economics, further elaborated on cognitive limitations through the concepts of heuristics and cognitive biases. In their seminal article "Judgment under Uncertainty: Heuristics and Biases," they assert:

"Judgment under uncertainty may be based on representativeness, availability, or the anchoring and adjustment heuristic, along with others. What these heuristics have in common is that they are quick and frugal."

This statement by Tversky and Kahneman reveals that in situations of uncertainty, humans often resort to heuristics (simple rules of thumb) for decision-making because it is a quick and cost-effective strategy. While this approach enhances efficiency in decision-making, it can also introduce bias and compromise full rationality.

Understanding these cognitive limitations is crucial for comprehensively detailing the complexity of human decision-making in the real economy. This insight continues to drive research in behavioral economics, focusing on the influence of cognitive limitations and heuristics on individual economic behavior.

3) Emotional factors

Emotional factors significantly influence the gap between the assumed full rationality in the concept of individualism and individuals' actual economic decisions. Economic choices are frequently swayed by emotions, which may not align with the rational considerations anticipated by conventional economic theory.

Kahneman, a Nobel Prize laureate in economics and a pioneer in behavioral economics, along with Amos Tversky, has developed pivotal concepts regarding the role of emotions in economic decisions. In their groundbreaking work "Prospect Theory: An Analysis of Decision under Risk," they assert:

"Choices among risky prospects exhibit several pervasive effects that are inconsistent with the basic tenets of utility theory. In particular, people underweight outcomes that are merely probable in comparison with outcomes that are obtained with certainty."

Through this statement, Kahneman and Tversky demonstrated that emotional perceptions regarding the likelihood of events, contrary to the predictions of conventional utility theory, often shape decisions involving risk. Individuals tend to undervalue outcomes that are merely possible compared to those guaranteed with certainty, highlighting the impact of emotions on risk assessment.

Thaler, in his book "Misbehaving: The Making of Behavioral Economics," further elucidates the influence of emotions on economic decision-making:

"Traditional economics assumes that people are highly rational agents, capable of fully understanding the consequences of their actions. But in real life, people often behave irrationally due to emotions, cognitive errors, and social influences."

This observation underlines that while traditional economics views individuals as highly rational beings who fully comprehend the implications of their actions, reality paints a different picture. Emotions, cognitive mistakes, and social pressures frequently drive human behavior. Through this lens, behavioral economics continues to delve into the impact of emotional factors on economic decisions, offering a more comprehensive understanding of human behavior within an economic framework.

4) Irrational behavior

Irrational behavior plays a crucial role in examining the discrepancy between the presumed full rationality in the concept of individualism and the actual economic decisions humans make. Individuals often demonstrate behaviors that diverge from the rational expectations set forth by conventional economic theory, a phenomenon that has garnered significant attention within behavioral economics.

Ariely (2008), a prominent behavioral economist, has made substantial contributions through his book "Predictably Irrational". In this work, Ariely delves into irrational behavior within an economic framework, showcasing experiments and findings illuminating the roles of uncertainty and cognitive biases in shaping economic decisions.

"Our irrational behaviors are neither random nor senseless—they are systematic and predictable. We all make the same types of mistakes over and over, because of the basic wiring of our brains."

In this quote, Ariely underscores that human irrationality is not arbitrary or illogical but follows systematic and predictable patterns. He suggests that repetitive mistakes are a product of our brain's inherent wiring. This perspective emphasizes Ariely's focus on identifying and understanding recurrent irrational behavior patterns.

Kahneman and Tversky (1979b), in their groundbreaking research on "Prospect Theory: An Analysis of Decision under Risk", highlighted the nuances of uncertainty and the inconsistent human approach to risk assessment.

"People value gains and losses differently, and their decisions are often inconsistent with the principle of expected utility."

Through this observation, they illustrate that individuals perceive gains and losses through different lenses, leading to decisions that frequently clash with the expected utility principle foundational to conventional economics. Further exploring irrational behavior, Thaler, in his 1999 article "Mental Accounting Matters", introduced the concept of "mental accounting".

This concept explains how individuals categorize their finances into distinct "mental accounts", a practice that can foster irrational decision-making. Behavioral economics significantly enhances our comprehension of the intricacies of human decision-making by shedding light on these aspects of irrational behavior. It continues to offer valuable insights for developing policies that better align with actual human behavior, thus bridging the gap between theoretical rationality and the complexities of real-world decisions.

The concept of individualism overcomes market imperfections and externality problems

The concept of individualism in conventional economics acknowledges the efficiency of markets as a mechanism for coordinating individual economic behavior. Nevertheless, it also recognizes that markets are imperfect and that externalities and market imperfections may arise. Addressing market imperfections and externality problems through the lens of individualism involves understanding.

1) Market and price mechanisms

In conventional economics, market mechanisms and prices are viewed as primary tools for facilitating economic interactions among individuals. This concept, often linked with Adam Smith's theory of the "invisible hand" (1793), posits that individual economic actions, when conducted within a free market, naturally lead to the most efficient resource allocation. Smith argued that while individuals might act out of self-interest, their marketplace interactions would inadvertently yield societal benefits, as though an invisible hand guided them towards efficient and harmonious outcomes.

Hayek (2013) further advanced the notion of the market as an effective coordinator in his work, "The Use of Knowledge in Society", emphasizing the price system's crucial role in the economy. Hayek contended that prices are a key information mechanism, encapsulating dispersed and decentralized knowledge that no single entity could amass. This system of prices sends essential signals to consumers and producers, advising them on how to adjust their actions, thereby promoting efficiency and facilitating the coordination of activities without necessitating central planning.

However, the limitations of market mechanisms are well-acknowledged within economic literature. Market imperfections, as detailed by Stiglitz (1996) in "Whither Socialism?", include issues such as monopolies, oligopolies, asymmetric information, and externalities, highlighting that markets do not always independently ensure efficient resource allocation. Externalities, for instance, represent situations

where the price does not reflect the full impact of economic activities on third parties, often necessitating governmental intervention to facilitate efficient resource allocation.

As Pigou (2017) demonstrated in "The Economics of Welfare", overcoming market imperfections frequently requires government intervention through taxes or subsidies to mitigate the effects of externalities. While acknowledging the necessity for such measures, proponents of individualism stress the importance of designing policies carefully to prevent additional market distortions and ensure that interventions enhance market efficiency without compromising the advantages of free-market operations.

Therefore, while market and price mechanisms form the cornerstone of conventional economics for resource allocation, there is an increasing consensus that careful intervention is essential to address market imperfections. This perspective is critical for ensuring markets function optimally and deliver maximum societal benefits.

2) *Individual freedom and innovation*

In conventional economics, individual freedom is heralded as the principal catalyst for innovation. The doctrine of individualism posits that allowing individuals the liberty to act based on their interests and preferences fosters an environment ripe for innovation and technological advancement. This liberty empowers entrepreneurs, inventors, and scientists to pioneer new ideas, experiment with novel approaches, and develop groundbreaking products or services.

The significance of individual freedom in fostering creativity and innovation within the economy cannot be overstated. Kirzner (1997), in his seminal work, underscores the critical role of an environment that cherishes economic freedom in stimulating individuals to identify and pursue new opportunities. Such freedom enables individuals to leverage unique local knowledge that might remain untapped or underappreciated. This dynamic propels innovation, often triggers technological advances, and enhances overall economic efficiency.

Markets championing individual freedom are frequently considered the quintessential setting for igniting innovation and spurring economic growth. Hayek (2013), in "The Use of Knowledge in Society," elucidates how decentralized economic systems—where individuals are free to act on their distinct knowledge—are superior in harnessing dispersed information than centralized models. This autonomy underpins the creative process, allowing individuals to unearth and implement innovative solutions that fuel technological progress and market efficiency. Hayek demonstrated that free markets optimize the employment of knowledge and resources, culminating in innovations that organically foster economic and social advancement.

Conversely, Kirzner (1997), in "Competition and Entrepreneurship" illuminates how economic freedom energizes entrepreneurship, encouraging individuals to detect and seize new opportunities that remain unrecognized or unexploited by others. This cultivates a breeding ground for innovation that accelerates technological advancement and augments overall economic efficiency. The liberty to innovate, experiment, and embrace risks is acknowledged as a crucial element that drives a creative and vibrant ecosystem, ultimately contributing to prosperity and sustainable economic growth.

While individual freedom is deemed indispensable for innovation, the extent of governmental involvement in this arena sparks debate. Tülüce & Yurtkur (2015) noted that Joseph Schumpeter acknowledges government interventions—such as patent protections, research subsidies, or regulations favoring certain industry standards—can stimulate innovation. However, he also cautioned that excessive interference could suppress the creativity and economic liberty fundamental to market-driven innovation.

Striking an optimal balance between individual freedom and governmental oversight is paramount to maximizing the innovation potential. Excessive regulation may curtail individual initiative and dampen innovation, whereas unchecked freedom might fail to address negative externalities or systemic risks that could impede long-term progress. By recognizing the pivotal role of individual freedom in driving innovation, conventional economics can shape policies that promote technological advancement while ensuring that innovation contributes to the greater social good.

3) *Government as supervisor and protector of property rights*

The role of government as both a supervisor and protector of property rights is a cornerstone of conventional economics. Smith (1793) argued that the government's fundamental duty as a "guardian" was to uphold law and order in the marketplace. This includes enforcing contract and property rights and laying a legal foundation for individual economic freedom. In a framework rooted in individualism, the government's pivotal role as supervisor and protector of property rights is indispensable in ensuring market mechanisms' effective and fair operation and safeguarding an environment conducive to individual innovation and creativity.

As a supervisor, the government ensures market competitiveness by enacting and enforcing laws to prevent monopolistic or oligopolistic practices that could compromise market integrity. Judicious regulations curb the potential for dominant market players to exploit their position, which might impede innovation and economic efficiency. The anti-monopoly law and competition policy, as discussed in Robert Bork's "The Antitrust Paradox" (1978), exemplify regulatory efforts to uphold fair competition and shield consumers from deleterious market dynamics. Furthermore, the government's role extends to protecting property rights, particularly in intellectual property. As Friedman pointed out (in Elrick & Thies, 2018), establishing and enforcing copyright and patent laws are critical to fostering innovation and safeguarding intellectual investments. In this capacity, the government serves as both guarantor and enforcer of property rights, offering the legal certainty essential for the seamless execution of economic activities. This viewpoint is further bolstered by Hayek (1944), who maintained that government policies supportive of property rights create a milieu wherein individuals are encouraged to invest and innovate.

Moreover, protecting property rights is vital for stimulating innovation and investment. Ensuring that intellectual property rights and physical investments will be defended encourages individuals to engage in innovation, investment, and broader economic participation. Douglas North (1990), in "Institutions, Institutional Change and Economic Performance", underscored that robust and effective institutions, including legal systems that uphold property rights, are key to sustained economic growth. Confidence in the government's commitment to enforcing property rights incentivizes individuals and businesses to pursue innovative endeavours, fueling economic growth and prosperity.

Therefore, the government functions as a regulator that ensures equitable competition and consumer protection and as a custodian of economic security, facilitating optimal market operation. Through its dual role in fostering healthy competition and safeguarding property rights, the government is instrumental in nurturing an ecosystem conducive to innovation, entrepreneurship, and comprehensive economic advancement.

4) *The concept of utility and rational choice*

Utility and rational choice are fundamental pillars within the traditional economic framework, bridging economic theory and human behavior through the prism of individually advantageous decisions. Bentham (1789) and Mill (1859), who were instrumental in the development of utilitarianism, posited that individuals are motivated by the pursuit of happiness or utility. This theory posits that people naturally gravitate towards choices that they believe will yield the highest satisfaction or benefit, laying the groundwork for the principle of outcome-oriented rational choice.

Expanding upon this notion, Becker (1962a) integrated rational choice theory into a broader spectrum, applying economic principles to various facets of human activity beyond mere market or economic exchanges. Becker maintained that individuals employ rational reasoning to assess options, balance benefits against costs, and ultimately select the path that optimizes their utility. This approach applies not only to economic transactions but to daily decisions as well.

From the viewpoint of conventional economics, the concepts of utility and rational choice are essential in comprehending the behaviors of consumers and producers. These ideas, elaborately discussed in works like Alfred Marshall's "Principles of Economics" (2009), suggest that market participants tend to select the mix of goods and services they believe will afford them the utmost satisfaction or utility, considering their budgetary constraints. Marshall highlighted the significance of marginal utility, or the additional satisfaction gained from consuming one more unit of a good, in consumer decision-making.

Similarly, manufacturers, as delineated by Samuelson & Nordhaus (in Skousen, 1997), aim to maximize profits by optimizing the allocation and production of resources. They employ cost-benefit analysis to determine the most efficient mix of inputs that will yield the maximum output at the lowest cost, mirroring the principles of rational choice in production scenarios. When examined through the rational choice and utility lenses, the market dynamics between consumers and producers lead to efficient pricing mechanisms and the optimal distribution of resources. According to Walras (2013) in "Elements of Pure Economics," this culminates in a state of general equilibrium where presuming rationality and complete information among all economic agents, no impetus exists to alter behavior.

Therefore, the concepts of utility and rational choice underpin economic models of individual and firm behavior and aid in predicting how shifts in economic parameters (like prices, income, or technology) influence their decisions and interactions. While seemingly straightforward, these concepts yield profound insights into market dynamics and have become indispensable tools in contemporary economic analysis.

To what extent do non-economic factors influence economic decisions, and how this conflicts with the view of individualism?

In the context of globalization and the intricacies of contemporary society, pivotal questions emerge regarding the impact of non-economic factors such as culture, social norms, and collective psychology on economic decision-making. Traditional economic theories often highlight the principle of individualism, focusing on personal freedom to make decisions grounded in rationality and utility. However, the growing acknowledgement of the role played by cultural values, social norms, and collective mentalities underscores the need for a comprehensive understanding of the myriad influences shaping economic choices. This exploration seeks to elucidate the extent and manner in which these factors affect economic decision-making and to examine how their interaction might challenge the conventional economic emphasis on individualism.

Cultural norms significantly shape economic behavior through the values and expectations prevalent within a society. For instance, the propensity for saving and long-term investment observed in Asian countries, such as Japan and China, exemplifies how cultural principles can foster conservative economic conduct. This phenomenon contrasts individualistic models, which conceive economic decisions as purely personal utility calculations, disregarding the wider cultural framework. Hofstede's (2010) research on cultural dimensions, particularly individualism versus collectivism, reveals that in societies leaning towards collectivism, economic decisions frequently reflect group or community considerations, thereby contesting the notion of individualism that posits individuals act solely to optimize their satisfaction.

Social norms further mould economic behavior by establishing the expected conduct within a specific social milieu. Elster (1989) underlines the substantial psychological influence these norms exert, prompting individuals to conform their consumption choices to group expectations, potentially at odds with their financial well-being. An example can be found in consumption patterns driven by social media, often mirroring conformity to group norms rather than decisions based on personal utility.

Moreover, collective psychology, defined as individuals' shared ways of thinking, significantly influences economic decisions. Durkheim's concept of collective consciousness (2024) demonstrates how a community's shared norms, values, and beliefs can dictate individual actions, including economic behaviors. Durkheim argued that the socio-cultural structure of a society frames the context for economic decision-making, affecting everything from investment choices to consumption habits and occupational preferences.

This perspective sheds light on how traditions, community expectations, and social norms are instrumental in sculpting economic preferences and choices. It implies that individual utility considerations do not solely drive economic decisions but are also shaped by the broader social context. Examples include trend-following behaviors in investments or consumption, often guided by group perceptions rather than impartial analysis, showcasing collective psychology at work (Rieger et al., 2022).

This nuanced understanding of collective psychology challenges the prevalent individualistic viewpoint within conventional economics, which typically assumes that individuals act independently based on personal preferences and information. In contrast, Durkheim emphasized that broader social factors often influence, if not dictate, economic choices.

Acknowledging the impact of these non-economic factors necessitates a more integrated approach in economic theory, blending insights into individual motivations

with the structural influences of cultural and social contexts. It challenges the individualism paradigm by revealing that economic decisions often result from complex interplays between personal inclinations, societal pressures, and cultural values. Hence, future economic theories could greatly benefit from incorporating interdisciplinary perspectives that deepen our comprehension of economic behavior as a multifaceted and complex phenomenon driven by rational considerations and adherence to prevailing norms and values.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Drawing from the discussions we have engaged in, it is evident that non-economic factors such as culture, social norms, and collective psychology exert a substantial and profound impact on economic decisions. This revelation contests the prevailing paradigm of individualism in conventional economic theories, which predominantly prioritize rational choice and personal utility as the primary motivators of economic behavior. Firstly, culture moulds individuals' values and preferences, shaping their economic behaviors, including investment, consumption, and saving patterns. Secondly, social norms establish a societal benchmark for acceptable and anticipated behaviors, directly influencing purchasing decisions, investments, and other economic activities. Lastly, collective psychology—or the communal consciousness shared by a group—affects individuals' perceptions and responses to their economic choices.

Acknowledging these influences underscores the necessity for a more encompassing approach in economic theory that acknowledges purely economic factors and incorporates the social, cultural, and psychological elements shaping human behavior. This entails broadening the conventional economic theory framework to embrace the complexities of human behavior, which often deviates from the assumptions of pure rational choice. Thus, the evolution of economic theory may entail a more integrated application of behavioral economics principles, identity economics, and a focus on the social and cultural dynamics influencing economic decisions, enabling the discipline to offer more nuanced explanations and accurate predictions about economic behaviors in an increasingly complex and interconnected world.

Recommendations

Addressing the epistemological critique of individualism in conventional economics necessitates an expanded perspective. Non-economic factors like culture, social norms, and collective psychology are recognized as pivotal in shaping individual decision-making processes. The recommendations for future research are aimed at broadening and deepening the theoretical underpinnings of economics:

1. Future studies should strive to formulate a more comprehensive economic theory integrating non-economic factors into its analytical framework.
2. Conducting in-depth qualitative research can offer more detailed insights into how culture, social norms, and collective psychology influence individual economic decisions.
3. Engaging in comparative analyses between societies that vary in cultural, normative, and psychological aspects can help elucidate the differential impacts of non-economic factors on economic decision-making.
4. Exploring how individual empowerment can be maintained and fostered within the context of varying social and cultural values is crucial.

By reconciling the concept of individualism with the complex realities of societal dynamics, this research paves the way for the contemplation and development of a more holistic economic paradigm. Such an approach is poised to bridge the gap between traditional economic theories and the multifaceted nature of human behavior, enriching the discipline with a broader and more integrated perspective.

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