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## **THE UNPREDICTABLE IMPACT OF HUMAN BEHAVIOR ON THE ECONOMIC PROCESSES**

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From the early childhood, we start to see connections in the world around us. Each of our actions or desires cause a corresponding reaction, for example, meal suppresses hunger, sleep relieves tiredness, problems have causes, and eliminating the cause will provide a solution. What we are doing, whether we know it or not, is forming mental models in which causes and effects are related. Our mental models exert an incredibly powerful influence on our perceptions and thoughts. They determine what we see, tell us what events are important and help us to make sense of our experiences.

The most important psychological factors that determine economic behavior are the goals, incentives, motives and interests of the individual.

Economists are not only interested in how these factors affect people, but also how people's behavior affects the factors in return. To understand the society means to understand its dominating desires. Because of human creativity and innovation, predicting responses to incentives is never easy. Incentives work like the little magnets that guide human activity. But that doesn't mean things always go according to a plan.

Horst Siebert, the German economist, coined the phrase "the cobra effect" to illustrate the effects of an incorrect understanding of the total view of a situation and the misapplication of controls in an economy.

The term 'Cobra effect' comes from the time of British rule of the colonial India and means situation when the solution to a problem actually makes the problem worse. The British government wanted to decrease the population of venomous cobra snakes, so they offered a reward for every dead snake. However, the Indians began to breed cobras for the income. When the government realized what was going on, the reward was cancelled, and the breeders set the snakes free. The snakes consequently multiplied, and increased the cobra population. Unfortunately, some of the crises facing our world are the result of honest attempts to solve problems.

Such situations happen because we live in a highly connected world where management actions have multiple outcomes. It's not a surprise that government policies do not always bring out the desired consequences, but it is definitely fascinating to see how those policies can sometimes cause backfire. Human behavior is unpredictable and often driven by self-interest. When action is taken, we would like the expected result to be happen, but a number of unexpected outcomes will always occur. Surely unexpected outcome can be beneficial, but, unfortunately such serendipitous events are extremely rare. What is more likely is that the unexpected outcomes will be unwanted and if we want to avoid unwanted policy surprises it's advisable to spend more time for studying the thoughts, desires, and the responses of society, because people are quick to find ways to beat the system. Policy makers who ignore this basic foundation of human behavior while making regulatory decisions might likely find themselves a prey to "The Cobra Effect".