

Chapter 4

Understanding Individuals' Behavior Under Uncertainty: Strategy Key Driver in Economic Crisis

Amalia Duțu

University of Pitesti, Romania

ABSTRACT

An economic crisis is an uncertain situation with negative economic evolutions like unemployment, inflation rate increase, freezing or decreasing of the wages, purchasing power decrease, etc. All of these represent economic shocks. The individual well-being is determined by many things like level, secure income, job stability, health, social relationships, and economic household security. In order to understand How and Why people behave in certain patterns in such an uncertain situation, a comprehensive analysis of situational consequences should be considered. All of these dimensions of analysis are correlated in some way and explain the consumers' behavior alteration during turbulent times. History's crises showed surviving companies were those characterized by high-speed reaction, strategic flexibility and a very good understanding of market mood. Thus, this chapter explains the consumer's behavior change in recession conditions and the panic mechanism that shapes people reactions in such conditions.

INTRODUCTION

Starting with 2008, the global economy has entered a period of profound restructuring; the world faced one of the worst economic crises in its history after the Great Depression in 1930. It was amazing how fast the financial crisis that started in the U.S. turned into an economic global crisis. The rapid expansion of the economic crisis worldwide, confirms the acceleration of the globalization process and the interdependencies existing between national economies at present. The unique character of the 2008 crisis was determined by several aspects, including its severity and global nature. If the confidence crisis that followed the financial crisis played an important role in turning the financial crisis into an economic one, the acceleration of economic globalization and increasing interdependence in economy have contributed significantly to the expansion of global economic crisis by the so-called domino and contagious effects.

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Still, during the history, many other economic turbulent times were experienced in different countries or regions. Thus, during the time, analysis and researches identified different causes for each important economic crisis episode, a common point being the emotion. At the conference “Crisis of Confidence - The Recession and the Economy of Fear” held in 2009, sponsored by the University of Pennsylvania’s Department of Psychiatry and the Psychoanalytic Center, the following aspect was emphasized: “The emotion not only led America into the present economic crisis but it could also keep it there.” David M. Sachs, training and supervising analyst at the Psychoanalytic Center of Philadelphia stated that “the economic crisis is not one of concern but one of confidence”. In this respect, Nobel economist Stiglitz (2008) claimed that the financial crisis emerged from a catastrophic collapse of confidence. At the same time, Ron Anderson (2009) asked some questions in an article posted on his blog: “Have you noticed that in general, people provide only economic explanations to the present crisis? Have you noticed the majority of arguments are built on economic and political elements and only on a small scale on psychological ones?”. Generally, recessions lead to unemployment problems, therefore, incomes fall, consumer confidence decreases, and all these lead to a raise in uncertainty about the future (Kay, 2010). For instance, the anxiety of losing the job is higher than the anxiety of unemployment situation. Also, it was proved that people are loss averse. The unhappiness feeling is higher if the wage is diminishing with \$10 than the happiness feeling in case of wage increasing with \$10. So, loss aversion makes consumers more sensitive to the economic negative evolutions.

Looking at different global economic turmoil moments, the transformation mechanism of the financial crisis into an economic one spread worldwide is based on the fact that a certain type of crisis has created the emergence of another type of crisis, the key driver of this emergence being the emotion. The core mechanism of this phenomenon is considered the “economy of fear”. Due to the exposure to uncertainty and economic shocks, the emotional response of consumers to the effects of the financial crisis has determined the decline in their confidence in brands, companies, sectors of activity, and anti-crisis measures taken by governments. In other words, the negative emotional response has determined the appearance of confidence crisis, which is associated with the change in consumption and spending allocation, people considered savings as a proper response to the uncertainty of their existence. Thus, in this context, safe living becomes a higher priority for each and every individual.

People choose saving their money instead of spending it (Simon, 2009). The fall in consumer spending leads to a decrease in aggregate demand and therefore lower economic growth. This had as a consequence market contractions and their structure alterations, generating the classical overproduction crisis, but also the prologue of the economic crisis. Thus, the new market situation is characterized as the “age of thrift” which has radically changed customer purchase behavior providing an environment dominated by public skepticism and lack of trust in business and in marketing offers (Piercy et al., 2010). This is supported by the evolution of Consumer Confidence Index (CCI) which, according to Nielsen Global Confidence Index Report 2008 has experienced significant decreases in all national markets in which it was measured, in some national markets taping an absolute record of decrease. In the first half of 2009, CCI continued to decline in 48 of the 50 monitored countries. Also, analyzing the 2008 crisis, Gerzema and D’Antonio (2011) supported the fact that that confidence in all types of big organizations, including big government and big business, has declined by nearly 50 percent in the past two years. Consumer confidence has dropped especially in the financial and automotive sectors, but also in retail, packaged goods, consumer electronics, and 20 other product and service categories.

There is no doubt that during the economic turbulent times the key drivers of the individuals’ behavior are related to emotions. Confronted with economic shocks, consumers adapt themselves to the

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