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*Research Article*

# An Investigation of the Association Between Behavioral Economics and Financial Behavior

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**Abstract:** Economics is a science that investigates human behaviors. The rational person of Classical and Neoclassical Economics and the person with bounded rationality of behavioral economics are affected by individual, psychological, and social factors in their economic decisions. These factors are the fundamental determinants of the financial behaviors exhibited by the individuals in a society. These factors that affect individual financial decisions transform the rational person of classical economics into an individual with bounded rationality, which draws the theoretical framework of the concept of bounded rationality. This study provides a theoretical framework for an association between behavioral economics and financial behaviors. The central thesis of this study is that financial behaviors are an integral part of behavioral economics studies. When an interdisciplinary approach is taken, both fields examine the individual, psychological, and social factors that affect individuals' economic decisions. Although behavioral economics is considered a separate field, this study shows that individuals' economic behavior and decision-making are also examined within the scope of financial behavior.

**Keywords:** Behavioral Economics, Financial Behavior, Decision-making, Rational Behavior, Bounded Rationality
**Jel Codes:** D01 D14, D91

## *Davranışsal İktisat ve Finansal Davranış Arasındaki İlişki Üzerine Bir Araştırma*

**Öz:** İktisat, insan davranışlarını inceleyen bir bilim dalıdır. Klasik ve Neoklasik iktisadın rasyonel insanı ve davranışsal iktisadın sınırlı rasyonelliğe sahip insanı, ekonomik kararlarında bireysel, psikolojik ve sosyal faktörlerden etkilenir. Bu faktörler, bir toplumdaki bireylerin gösterdiği finansal davranışların temel belirleyicileridir. Bireyin finansal kararlarına etki eden bu türden faktörler klasik iktisadın rasyonel insanını sınırlı rasyonalitiye sahip bireye dönüştürürken sınırlı rasyonalite kavramının da teorik çerçevesini çizmektedir. Bu çalışma, davranışsal iktisat ile finansal davranışlar arasındaki ilişkiye dair teorik bir çerçeve sunmaktadır. Bu çalışmanın ana tezi, finansal davranışların davranışsal iktisat çalışmalarının ayrılmaz bir parçası olduğudur. Disiplinler arası bir yaklaşım benimsendiğinde, her iki alan da bireylerin ekonomik kararlarını etkileyen bireysel, psikolojik ve sosyal faktörleri inceler. Bu kararlara aynı zamanda bireysel ve toplumsal faktörler olumlu veya olumsuz olarak etki eder. Bu kapsamda davranışsal iktisat ayrı bir araştırma alanı olarak kabul edilse de, bu çalışma bireyin ekonomik davranışının yanı sıra karar alma sürecinin de finansal davranış kapsamında incelendiğini göstermeye çalışmaktadır.

**Anahtar Kelimeler:** Davranışsal İktisat, Finansal Davranış, Karar Alma, Rasyonel Davranış, Sınırlı Rasyonellik **Jel Kodları:** D01 D14, D91

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## 1. Introduction

Behavioral economics is a mixture of psychology and economics. The behavioral economics approach provides an opportunity to create more beneficial models of economic behavior using the knowledge of other social science disciplines. Neoclassical economic theory has specific assertions about individuals' behaviors. It assumes that most people's preferences are well-defined. They also have unbiased beliefs and expectations. Individuals make optimal choices based on these preferences and beliefs. People have infinite cognitive and willpower because they choose what is best for them (Tahler, 2016). Neoclassical economics approach uses expected utility theory To explain and predict individuals' choices under risk and uncertainty (Stefánsson, 2021). The expected utility theory consists of two components. First, individuals' decisions are based on the expected utility value of the different outcomes in terms of the choices. Second, more of the same thing creates additional utility at a decreasing rate (Lengwiler, 2009). However, several factors considered unimportant in economic behavior in the classical economic theory approach are important determinants of behavior in the behavioral economics approach. People are biased in their expectations when making choices about many external factors. Beliefs are unbiased according to Classical economics theory.

In this context, the rational expectations assumption is based on the assumption that individuals understand the model (Tahler, 2016). The classical economic model of human behavior consists of three unrealistic traits: unbounded rationality, selfishness, and willpower. Even people who know best cannot choose the right thing for reasons related to self-control, although homo economicus assumed to choose the optimum. People deviate from rationality, which is seen in their choices and biases. For example, overconfidence and optimism negatively affect rational decisions (Mullainathan & Thaler, 2000). The prospect theory explains how people make choices, as opposed to the rationality concept of the classical economic model, which is based on expected utility theory. According to the prospect theory, the utilities of outcomes are weighted according to their probabilities in the classical economic model. The Prospect theory, on the other hand, states that people systematically violate their preferences. It suggests that people place more importance on outcomes that are considered specific than on probable outcomes (Kahneman & Tversky, 1979).

On the other hand, financial behavior refers to the behaviors of individuals commonly related to money management, including cash, credit, and savings behaviors. These behaviors are often self-induced and influenced by other factors (Xiao, 2008). Fundamentally, financial behavior is the behavior of an individual within the society. It examines individual behavior's positive or negative effects on their economic activities. In this respect, it should be considered within the social behavioral concept of the economy. Another aspect of financial behavior is that it is an important part of the individual's literacy in economic activities. A higher level of financial literacy can be achieved through sufficient financial knowledge, appropriate financial attitude, and positive financial behavior. On the other hand, financial behavior is also influenced by sociological and psychological factors. For example, savings-oriented people demonstrate more positive financial behaviors (Ergün, 2021).

Although behavioral economics accepts that individuals have limited rationality (Kahneman & Tversky, 1979), this does not mean completely rejecting the neoclassical economic model, which is based on the maximization of utility, efficiency, and balance. Considering the psychological foundations in behavioral economics makes economic analysis more effective. Behavioral economics offers a theoretical approach that can be applied to the economic behavior of individuals (Camerer & Loewenstein, 2004). In this respect, behavioral, experimental, and financial economics have developed to show that various psychological factors determine the behavior of individuals to acquire information and use the information they obtain and to indicate that emotional, cognitive, and behavioral factors have an impact on the decisions individuals make (Costa, Carvalho & Moreira, 2019).

## 2. Classical and Neoclassical Economics Theory

The science of economics started from the Classical school of economics and has drawn a linear framework based on the central paradigm until today (Erkan, 2016: 27). Considering the difference in macroeconomic parameters, Classical Economists and Neo-Classical Economists are divided into pre-Keynesian and post-Keynesian. The term classical, which belongs to classical economics, was derived by Karl Marx (1847) as a definition of Ricardo's formal economy. From this perspective, Marx and Schumpeter start the Classical period with Ricardo. Thus, they put Adam Smith among the Mercantilist writers and accepted the Classical Economic period between 1790 and 1879. However, it is generally accepted that the formation of the Classical Economic view historically occurred between 1776 and 1870 (Colander, 2000). When considered a historical process, the development and complexity of capitalism with the Industrial Revolution have brought about various problems such as unemployment, poverty, and inflation. Such social problems increased intellectual production and helped economics become a science. In this context, the first scientific books in economics began to be written. In this context, Adam Smith's book "An Inquiry into the Nature and Causes of the Wealth of Nations" in 1776 constituted an important turning point as the first comprehensive economic book. With this work, Adam Smith laid the foundations of classical economic theory. He explained how division of labor, rational self-interest, and competition could contribute to the economy's welfare. Other important economists who contributed to classical economics were Thomas Malthus with his works Essays on the Principle of Population in 1798 and Principles of Political Economy in 1820, David Ricardo with his book Principles of Political Economy and Taxation in 1817, and John Stuart Mill with his book Principles of Political Economy in 1848. In addition, Jeremy Bentham and the Ricardo School representative, with their views advocating individual and economic freedom, and especially John Ramsay McCulloch, who has studied economic policies, are other economists who have contributed to classical economics. The economic views that these economists have jointly formed, together with Adam Smith, have been accepted as the Classical Economic School. The economists in question have been referred to as Classical Economists. The essence of the economic thought defended by the classical school is a liberal economic system in which the state does not intervene at all, where perfect competition conditions prevail, and where the free market economy is defended (Tomanbay, 2029; Hiç Birol & Hiç Gencer, 2014). In addition to the invisible hand of classical economics (fully flexible prices and wages and the price mechanism), Say's law and the view that individuals are rational, property rights, market equilibrium, and automatic full employment, and the acceptance of the source of value as a benefit, balanced budget and the state's non-intervention in the economy constitute other basic views. However, in essence, the subjects that classical economists from Adam Smith to David Ricardo focused on were wage labor, the increasingly complex division of labor, the coordination of economic activity, and the laws governing the capitalist economy that continued to exist with rapid technical, organizational, and institutional change. Classical economists focused more on capital accumulation, the factors that affected the rate of expansion of the economy, and how the growing social product was shared among workers, capitalists, and landowners (Kurz & Salvadori, 1998).

According to the old literature, the Neo-Classical period covers the period starting from A. Marshall (1890) and continuing until the 1950s with the contributions of Don Patinkin. This distinction is mainly based on the microeconomic analyses by A. Marshall within the scope of elasticity and cardinal utility (Hiç Birol, Ö., Hiç Gencer, 2014). Marshall obtained the demand curve that reveals the marginal benefits of buyers by combining supply and demand. On the other hand, he developed the supply curve of Classical economics based on production costs (Kabaş, 2018). According to the new literature, the Neo-Classical period was born with the efforts of Arthur C. Pigou (1933) and Don Patinkin and extends to the 1950s. According to this distinction, Neo-Classical economists remained loyal to the Classical System regarding microeconomic foundations. However, they accepted Keynes's new concepts and functional relations in macroeconomic analyses and worked with these concepts and functional relations. In particular, the Pigou Effect and the Neoclassical Synthesis have become two important concepts in economic analysis. While the Pigou effect suggests that consumption and savings depend on wealth, the neoclassical synthesis proposed Keynesian monetary and fiscal policies for the employment balance in the event of unemployment. However, they still accepted the concept of a balanced budget and accepted that the state should only fulfill its traditional functions (Hiç Birol, Ö., Hiç Gencer, 2014). In this context, Neoclassical economics is considered within a specific time frame because the marginal analysis, which is the distinguishing feature of neoclassical economics, is thought to have been used by different economists simultaneously. Therefore, there is a consensus that the foundations of neoclassical economics are based on the marginalist revolution (Bilir, 2018, p. 660).

On the other hand, when looked at historically, there was a qualitative change in the economic approaches of some economists in the 1870s. Especially in this period, utilitarianism and marginalism gained importance. This situation revealed another understanding outside of classical economics labor theory of value. This, in turn, revealed another classification. The term developed for this classification was Neoclassical. Although the term Neoclassical was first put forward by Veblen in 1900, this term was not considered a definition of mainstream economics (Colander, 2000). Veblen used the term neoclassical economics both as a continuation of the classical economic tradition and to indicate economics that departed from classical economics (Bilir, 2018, p. 662). However, it took its place later in the writings of Mitchell (1967), Hobson (1925), and Roll (1938, 1942). This concept was expanded by Hicks (1932, 1934) and Stigler (1941). The concept of marginal utility, one of the most important concepts of neoclassical economics, was included in Jevons's Theory of Political Economy and Menger's Principles of Economics in 1871. In 1874, Walras's Elements of Pure Economics included the general equilibrium theory, Marshall's Principles of Economics included the concepts of marginal utility and demand analysis and welfare economics, and Pareto's Pareto optimum and welfare economics. Neoclassical economics focused on the allocation of scarce resources among alternatives, utilitarianism (source of value) and focus on demand, the concept of marginal utility, state intervention in necessary situations such as unemployment and inflation (monetary policy), the understanding of individual rationality to social rationality, the understanding of general equilibrium in economics (the general equilibrium concept was placed at the center of economics by Schumpeter), and welfare economics (Colander, 2000). Neoclassical economics assumes that individuals behave rationally based on the information they obtain, pursue self-interest, aim to maximize their utility, and focus on the general equilibrium situation (Acar, 2024).

## 3. Behavioral Economics

Behavioral economics refers to emotional intelligence in economic decision-making processes and states that individuals do not exhibit rational behaviors and may exhibit different behaviors in different situations. In this respect, it stands out as an innovative approach compared to the traditional economic approach. The behavioral economic approach has argued that humans do not exhibit entirely rational behaviors but have limited rationality (Kitapcı, 2017). Rationality may be an assumption that can be accepted as accurate for economic actors who are unlimited in knowledge and skills and isolated from their own emotions and environment. However, in the analyses of the neoclassical school, it has been ignored that the individual can be affected by their environment and their emotional and cognitive structure (Can Kamber, 2018). Historically, the origins of behavioral economics can be traced back to the mid-20th century; during this period, psychologists and economists began to question the assumptions of traditional economic theory. The basis of traditional economic theory was the assumption that people always behave rationally and act according to their interests. However, the idea that people are rational and act according to their interests in traditional economics began to be criticized, especially after the second half of the 21st century. Especially in the 1950s and 1960s, researchers such as Herbert Simon, Daniel Kahneman, and Amos Tversky began to oppose the concept of economic rationality (Nagatsu, 2015). Herbert Simon (1957) offered criticisms of the rational choice models of classical economics. Within his evaluations, the concept of bounded rationality in economics was associated with Herbert Simon. Simon proposed the concept of bounded rationality as an alternative to the perfect mathematical decision-making model (Yeşildağ, 2022). He argued that because the individual's information processing process is limited and it is difficult to make a decision, the individual prefers an option that will satisfy him rather than the most appropriate one (Can Kamber, 2018). Ward Edwards (1954) researched the rational model and choice under risk. Sarah Lichtenstein (1971) and Paul Slovic (1971) studied people's hypothetical gambling risk assessments. Later, Daniel Kahneman and Amos Tversky (1971) examined individual probability judgments under uncertainty, especially at the beginning of their studies in the field of behavioral economics. Later, Kahneman and Tversky's (1979) work Prospect Theory: An Analysis of Decision under Risk explained the concept of loss aversion. With this concept, the authors stated that individuals tend to evaluate potential losses more than gains. With the concept of the encirclement effect, they explained that how information is presented can affect decision-making processes. In 1980, with his work Toward a Positive Theory of Consumer Choice (1980), Richard Thaler examined various aspects of consumer behavior, such as opportunity cost, sunk costs, and regret, based on the work of Tversky and Kahneman, and investigated how social norms and cognitive biases affect people's decisions. Eric Wanner focused on applying behavioral insights to economically important areas such as financial markets (Nagatsu, 2015). In their work Nudge: Improving Decisions about Health, Wealth and Happiness, published in 2008 by Richard Thaler and Cass Sunstein, they stated that individuals often behave in ways that economic theory has difficulty predicting. This theory, called the Nudge theory, is a flexible choice management concept that aims to understand people's mindsets, factors affecting their decision-making, and behavioral patterns (Eryaşar & Gönüllüoğlu, 2021).

Behavioral economics is about understanding the economic behavior of individuals and the consequences of that behavior. It is also about understanding whether people's choices are good or bad and whether they can be helped to make better choices. On the other hand, behavioral economics is about applying knowledge from psychology, laboratory experiments, and other social sciences to economics (Tomer, 2007). However, accepting behavioral economics as a combination of psychology and economics excludes human behaviors originating from the social environment. The environment in which people live is the main factor that shapes their behaviors.

The standard economic approach assumes perfect rationality. While there is disagreement about the extent of perfect rationality, most economists agree that people have well-defined choices and make decisions that maximize their benefits from these preferences that accurately demonstrate the costs and benefits of alternatives. Additionally, in uncertain conditions, individuals have well-formed beliefs regarding resolving uncertainty. People update their beliefs using Bayes' law when new information emerges (Camerer, Issacharoff, Loewenstein, O'Donoghue & Rabin, 2003). Behavioral decision research based on behavioral economics generally falls into judgment research and choice research. Judgment research refers to the processes by which people estimate available possibilities. Preferences refer to the processes by which people choose among different alternatives they face. (Camerer & Loewenstein, 2004). Different alternatives emerge within the general economy and vary from society to society. Although choices are individual, the economy represents not only a whole formed by individuals coming together. Individual choices form parts of the economy as a whole. (Piore, 200, p. 292).

## 4. Bounded Rationality

Behavioral economics does not accept the assumption that people rationally maximize the satisfaction of their preferences. Instead, it advocates the assumptions of bounded rationality, bounded self-interest, and bounded willpower. Bounded rationality suggests that people have cognitive antics that limit their ability to process information rationally. These cognitive problems include availability estimation, sunk cost fallacy, over-optimism, and loss aversion. (Posner, 1997). Economics has used the principles of rationality to model human behavior. However, traditionally, rationality has been interpreted as a normative concept, suggesting specific actions or stating how an individual should behave. Unsurprisingly, these principles of rationality are not universally adhered to in everyday choices.

Behavioral scientists who have observed such choices that violate rationality have concluded that they can profit by playing with the principles of rationality in their models and theories. This area of research is known as bounded rationality (Grüne-Yanoff, 2007). Classical economic theory accepts that people are rational and that they know what their economic interests are. People are fully capable of reasoning when making decisions. It assumes that people have all the necessary information and act rationally to obtain it. It also implies a relatively costless decision-making process for optimizing production efficiency, consumer welfare, and investment (Schwartz, 2007). Bounded rationality is a school of thought on decision-making that stems from dissatisfaction with rational economic and decision theory approaches. These approaches assume that consequences define choices, are known and unchanging and that decision-makers maximize their utility by choosing the alternative that provides the maximum utility. This approach suggests that the resulting behavior results from a combination of factors encountered by the decision-maker and that adaptation to these factors is instantaneous (Jones, 1999). Bounded rationality refers to a rational choice that considers the knowledge limits and computational capacities of decision-makers. Bounded rationality is at the core of behavioral economics. It concerns how decisions are made in the actual decision-making stages (Simon, 1990). The behavioral approach assumes that rational decision-making is hindered by emotions and intuition (Bilir, 2024).

## 5. Prospect Theory

Contrary to the classical economic understanding, it has been argued, especially by economic psychologists, that individuals can change their preferences in the short term. Daniel Kahneman and Amos Tversky put forward the Prospect Theory. Laboratory experiments by Daniel Kahneman and Amos Tversky showed that people systematically violate the premises of the subjective expected utility theory. These two psychologists also developed the probability theory for making decisions under risk. Daniel Kahneman and Amos Tversky suggested that our judgment of gain or loss regarding our choices affects our level of risk-taking (Mercer, 2005). Prospect theory replaced expected utility theory (Edwards, 1996).

Expected utility theory is a normative model of human rational choice and a descriptive model of how people shape their behavior. In this respect, it has become an important element of analyzing decision-making under risk. However, people's predictions about their behavior are inconsistent with observed behavior. These empirical anomalies led Kahneman and Tversky to develop a new theory of the decision-making process under risky conditions (Levy, 1992). According to the Prospect Theory, most individuals show positive but decreasing marginal utility in addition to income; they prefer income they are sure to receive to income they are likely to receive. When individuals face the possibility of loss, they are more sensitive to the potential gains they may receive and tend to avoid losses. Individuals tend to make decisions based on the probability of gain or loss relative to a specific reference point rather than on the statistically probable outcomes of welfare or similar decisions. Even if the information is the same, it can lead to different decisions depending on how it is framed, which can encourage risk aversion or risk-taking. Individuals have difficulty evaluating small probabilities in particular (Schwartz, 2007). However, the application of prospect theory in economics takes a long time. Prospect theory is based on the idea that people will benefit from gains and losses measured relative to a reference point. However, in any given situation, precisely what a gain or loss is and how it is defined is often unclear. This is because Kahneman and Tversky offer little guidance on determining the reference point. Researchers have adopted an approach to address this problem: construct predictions of prospect theory under various possible definitions of gains and losses and then test these predictions in the laboratory and the field (Barberis, 2013). Therefore, being testable in the field and the laboratory is a distinguishing feature of behavioral economics. This supports the theory and the research of economists who want to conduct a study in the field of consumer behavior.

## 6. Preferences

Behavioral economists claim that individuals' preferences are irrational and can be manipulated. They also claim that it is not apparent that individuals' preferences are reflected in public policy. In contrast, economists with a traditional economic understanding accept individuals' preferences as given even if they are not rational agents and claim that they should not be influenced. They also believe these preferences are an important input for public policy (Carlsson, 2010). Classical economists view people as rational decision-makers who behave rationally in certain situations. Therefore, people's behavior is predictable. However, people behave irrationally rather than rationally. People follow irrational human nature and irrational patterns. Therefore, people's decisions are predictable (Platz & Veres, 2014). The theoretical framework proposed by behavioral economics has proven helpful in laboratory studies for understanding environmental controls of general behavioral levels for various strengthening commodities. Hypothetical demand studies have shown that behavioral economic methodology provides generality to demand curve analysis of all consumers (Hursh, 2014). In this context, preferences are linked to well-being and choice. Therefore, preferences are central to mainstream economics. Assuming that individuals are rational, selfish, and well-informed, their preferences explain their choices and reflect what will benefit them. Understanding individuals’ preferences helps us understand their economic success and challenges. Psychologists and behavioral economists have argued that people’s preference rankings depend mainly on the reference point at which alternatives appear to be losses or gains (Housman, 2012). On the other hand, in addition to preferences, social preferences are also central to behavioral economics, which are invoked to explain deviations from the predictions of rational choice theory or the self-interest assumption (Lisciandra, 2018).

## 7. Short-term and Long-term Financial Behaviors

Financial behaviors are defined as short-term if they involve the management of money or credit that provides people with regular and timely feedback to change their financial behavior to avoid financial penalties and related results. In this respect, short-term financial behaviors include paying monthly bills, managing the current account, and paying off the credit card in full every month. Long-term financial behaviors, such as saving for immediate needs, having a savings account for the future, having financial investments, and having a retirement account, involve individuals planning more for their future financial lives. Long-term negative financial behaviors do not cause negative consequences for individuals in the short term. However, short-term negative financial behaviors lead to short-term negative consequences. For example, not saving for long-term goals has no short-term negative consequences, but not being able to pay off monthly credit cards in full will have short-term negative consequences (Wagner

& Walstad, 2019). Both long-term and short-term financial planning positively affect a high level of financial literacy.

Individuals with low levels of financial literacy have difficulty adopting new financial products. They cannot make effective financial decisions, causing economic problems for countries in the short and long term (Darıcı, Kutlu, & Kevser, 2023). Positive financial behaviors can only occur with accurate financial knowledge. The transformation of financial knowledge into positive financial behavior varies depending on the age of the individuals. Financial knowledge is less associated with short-term financial behavior in younger individuals. Long-term financial behavior increases more with age. Many adults receive financial knowledge through their experience, and planning for long-term positive financial behaviors, including having a retirement account, increases with age (Henager & Cude, 2016). Individuals with higher levels of financial literacy and greater confidence in their knowledge and numeracy skills exhibit more positive financial behaviors in the short-term and long-term, such as emergency savings, responsible borrowing, and retirement.

Additionally, individuals who receive professional financial advice lead them to positive financial behaviors in the short and long term. (Fan, 2021). On the other hand, individual and psychological characteristics also affect positive financial behaviors. People with higher self-control, those who are more optimistic, and those who tend to think carefully exhibit more positive financial behaviors. In particular, as individuals' level of self-control increases, they behave financially more positively regarding their financial security for current and future financial life (Vuković & Pivac, 2021).

## 8. Financial Well-being

Financial well-being is the perception of maintaining desired living standards and financial freedom for the present and future. Financial well-being has both individual and societal aspects. There is a close connection between the individual and societal well-being because of the interconnection between the individual and society (Brüggen, Hogreve, Holmlund, Kabadayi & Löfgren, 2017). Since well-being is subjective, it varies from person to person. Social well-being can only be measured using other indicators. Individual well-being includes physical, financial, and social well-being and psychological elements. A person creates an income level with these components, constituting the person's financial capital. The financial capital owned is an indicator of the person's financial well-being. Thus, financial well-being results from appropriate financial behavior, financial literacy, and overall individual financial management (Zemtsov & Osipova, 2016). Self-control is of great importance to the financial well-being of the individual. Self-control positively affects the financial behaviors of individuals in the market and their financial well-being. At the same time, being optimistic reduces the level of anxiety about financial matters, increases the sense of self-confidence about financial situations, and causes positive financial behaviors (Strömbäck, Skagerlund, Västfjäll & Tinghög, 2017). On the other hand, there is a strong relationship between high levels of self-efficacy and financial well-being (Dare, van Dijk, W., van Dijk, E., van Dillen, Gallucci, & Simonse, 2023).

Although financial well-being is fundamentally based on sufficient financial knowledge, having sufficient financial knowledge alone does not positively affect financial well-being. It is also necessary to have the appropriate financial behavior and attitude. Reviewing financial decisions and making decisions based on market conditions contribute positively to financial well-being. Sound financial behaviors regarding spending and saving for long-term goals, such as retirement planning, also positively affect financial well-being.

## 9. Behavioral Economics and Financial Behaviors

Classical economic approaches suggest that individuals and organizations try their best and that those who succeed do so because they are the individuals or organizations closest to doing their best. It assumes that people are selfish, reasonably well-informed, and attempt to fill important information gaps. The classical economic approach also assumes that individuals have sufficient reasoning skills to solve simple problems most efficiently. Another important assumption is that there are more competitive market conditions. The market mechanism tolerates this situation even when individuals are not fully competent. However, it is increasingly recognized that the assumptions of the classical economic approach are not adequate to deal with some situations (Schwartz, 2007). As a result, the economic behavior of individuals has become a subject of study. Financial behavior that should be evaluated within behavioral economics, along with financial knowledge and attitude, is one of the most important components of financial literacy. Appropriate financial behavior can emerge through gaining sufficient financial knowledge. Although there are many elements of financial behavior, it includes individuals' positive or negative financial behaviors on spending, saving, investing, and credit card usage. Although behavioral economics is a field of study, individuals' financial behaviors are also examined in behavioral finance.

Rather than being a separate field, behavioral finance is an applied branch of behavioral economics. This is because behavioral finance is closely connected to behavioral economics, especially psychological economics. Many behavioral finance practitioners are also behavioral economists, which is evident in their research activities. A fundamental question in behavioral finance is whether participants in financial markets behave entirely rationally. In general, behavioral finance practitioners draw on the psychological insights of behavioral economists to show that financial markets are often not as efficient as proponents of the efficient market hypothesis claim. They use quantitative methods to some extent rather than behavioral economists. This is because the nature of finance, which is more susceptible to quantification than many economics topics of interest to behavioral economists, is a subject of interest (Tomer, 2007). The field of behavioral economics precedes behavioral finance. Considering this situation, behavioral finance is a theoretical branch that emerged from Behavioral Economics. In a sense, behavioral finance emerged from behavioral economics (Costa et al., 2019).

Individuals' sufficient financial knowledge is of great importance regarding positive financial behaviors. However, financial knowledge must be able to transform into positive financial behaviors. A meta-analysis conducted by Sarıgül (2024) on the gender gap in financial literacy in Turkey has revealed a striking result. The study concluded that financial knowledge is more effective in addressing the gender gap in financial literacy than financial attitude and financial behavior. Although women have a significantly lower level of financial knowledge than men, the difference between men and women regarding positive financial behavior and financial attitude is not as significant as the level of financial knowledge. This situation makes the practical applicability of financial knowledge questionable. This situation needs to be resolved with effective financial education practices. Positive financial behaviors, mainly supported by accurate financial knowledge on spending, saving, and investing, are vital for both the individual and society regarding a sustainable balance of spending and saving. This contributes to social welfare in the long term because positive financial behaviors increase the savings and investment levels of society. Otherwise, both in the short term and in the long term, the spending level will be high, and the saving level will be low, preventing capital accumulation for investment in the long term.

## 10. Behavioral Economics and Financial Behavior within the Framework of the Methodological Individualism Approach

The essential element in neoclassical economic analysis is the individual. In this respect, society has a passive structure within the framework of this analysis (Bilir, 2018). The analysis is based on the individual and benefits from the assumption of methodological individualism. The individual is the element that should be analyzed as doing everything. On the other hand, society is passive and cannot be said to do anything (Bilir, 2019). In this context, methodological individualism is the individual approach that dominates mainstream economists and Neoclassical Economists. In this approach, the individual benefit function is unchangeable. It is accepted that tastes and goals change based on a single and essential benefit function (Acar, 2024).

According to methodological individualism, social life can only be understood by starting from individuals, their perceptions, experiences, and consciousness. Thus, methodological individualism puts "the concept of individuals as atoms of society" at the basis of individualism. The individual as an atom approach of methodological individualism also forms the basis of classical liberalism. In methodological individualism, social phenomena are defined and explained by starting with individuals and the relationships between individuals. In other words, individuals have created social phenomena. In strong methodological individualism, the social is reduced to the psychological. When talking about any social institution, it must be reduced to the individual actions that constitute this institution. According to methodological individualism, the rational choices of individuals are important. Rational choices can also explain the results that emerge. British utilitarian philosophy, classical economic theory, and social contract theory constitute the fundamental sources of individualism, and methodological individualism, economic individualism, and political individualism arise from these sources. These sources fundamentally guide classical liberalism. In understanding society on the one hand and the individual pursuing his interests on the other, society is defined in opposition to the individual (Küçük & Girgin, 2022). This analysis of the behavioral economics approach, which is based on the acceptance of uncertainty about the future and the departure from optimality in the behavior of economic decision-making units under this uncertainty, continues to follow the methodological individualist approach of neoclassical economics, even though it has abandoned the rationality assumption of neoclassical economics. This situation shows that behavioral economics has not moved far enough from the field of orthodoxy. Individual choice continues with the behavioral economics approach, supported by bounded rationality. The methodological individualist approach, one of the main elements of neoclassical economics, continues in the new behavioral economics approach. Although questioning whether individuals act rationally in their choices in new behavioral economics represents a deviation from neoclassical economics, conducting economic analysis only on the individual and the individual's decision-making mechanism is a sign that reductionism continues in the methodological sense (Soylu, 2023). This view is quite acceptable because behavioral economics is essentially a critique of the basic assumptions of neoclassical economics. What behavioral economics does is to reveal the individual's behaviors that deviate from rationality and to determine the reasons for these. Therefore, rationality is the basis, but there are deviations from this rationality for different reasons.

On the other hand, the analysis of the individual's financial behavior is, in one respect, to create a link between neoclassical economics, whose basis is methodological individualism, and behavioral economics, which detects the anomalies of neoclassical economics. In one respect, financial behavior analysis investigates how individuals can transform their negative financial behaviors into positive financial behaviors. The way to achieve this result is first to measure the financial knowledge levels of individuals and then increase the financial knowledge of individuals through financial education. Thus, it is to increase the financial literacy levels of individuals by ensuring that they have sound financial attitudes and behaviors. Thus, what is desired is to ensure that individuals move away from negative behaviors in the market and exhibit more rational behaviors. Negative financial behaviors indicate the individual's departure from rational behaviors. The increase in positive financial behaviors indicates the individual's approach to rational behaviors. Therefore, financial behavior analysis presents an approach that will enable individuals to move away from the anomalies put forward by behavioral economics and thus approach the methodological individualism embodied in neoclassical economics.

## 11. Conclusion

Although consumers' financial behaviors are within the research area of many social sciences, behavioral finance is primarily concerned with financial behaviors, which are within the scope of behavioral economics. In this respect, the negative or positive financial behaviors that individuals exhibit in their private lives and within the market mechanism are also fundamentally within the scope of behavioral economics. If an economist researches and analyzes the financial behaviors of individuals, such as spending, saving, or investing, it is natural for this economist to be a researcher who conducts research in the field of behavioral economics. Considering that humans are social beings, it is unthinkable that people's financial behaviors are not affected by social life. Therefore, every financial behavior is also a social behavior. Thus, a researcher focuses on consumer behaviors within a more general theoretical framework and has the opportunity to make a deeper analysis. This situation can eliminate the limitations that arise from focusing on consumer behaviors only from a financial perspective. Behavioral economics offers researchers not only theoretical but also experimental research opportunities concerning social life. Thus, behavioral economics allows researchers to support their theoretical studies with experiments in a society.

Classical and neoclassical economics focus on the rationality of humans. Behavioral economics focuses on the anomalies of humans deviating from rationality. Financial behavior analysis focuses on the ways to achieve rationality. The two main points emphasized in these approaches are that humans are rational or should be rational. The necessity of people being rational has made it necessary to examine, analyze, and correct financial behavior that deviates from rationality. This correction process is carried out by making the financial behaviors of individuals in the market a subject of research. Both behavioral economics studies and research on individuals' financial behaviors find solutions to the anomalies in the methodological individualist approach of classical and neoclassical economics.

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