

World Entwined



ECONOMICS & PSYCHOLOGY

**WHY THE
ECONOMY OF
HARRY POTTER
DOESN'T MAKE ANY
SENSE**

**WHY WE
BUY
THINGS**

**WHY INFLATION
DOESN'T
AFFECT
DEVOTION**

WELCOME!

**Welcome to the third issue of our magazine- the
entwinement of Economics with Psychology!**

**We picked these subjects because they influence our lives
significantly. From shopping to going to a concert,
everything we do is motivated by the laws of economics and
psychology that act in synchronicity.**

**Through the Issue-III of our magazine, we aspire to teach
you a little something about why you make the decisions you
make and how they ultimately reshape your personal lives,
as well as the economy as a whole.**

***So fasten your seatbelts because we are about to take you on a ride
through the lands of behavioral economics!***

-World Entwined Magazine Team



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Entwining Psychology and Economics

By
Silvia Ban

If psychology is the study room that maintains books and documents that are about the study of human beings, economics will be like a maid who organizes the books and cleans the office every day, and gives others a better view of this space and shows us how psychology is being applied into the battlefields!



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The background of the entire slide is a collage of US dollar bills, including \$100, \$20, and \$50 denominations, with various serial numbers and the word 'UNITED STATES' visible.

SUNK COSTS

AHH.. ANOTHER UNRECOVERABLE EXPENSE

When deciding whether to do something, people don't only look at whether it is suitable for them, but also whether they have invested in it in the past. We call those unrecoverable expenditures that have already occurred, such as time, money, and energy, "sunk costs." In economics, sunk costs refer to costs that have been paid and cannot be recovered. In psychology, it's also a common problem that happens to almost everyone.

For example, a lady spends 20 dollars watch a concert because there is one of her favourite singers. But in the end, the singer couldn't come for some reason, and there was heavy rain that night, it was challenging to drive to watch. Would she choose not to go to the concert and stay at home?

From an economic perspective, if you are rational, you should not consider sunk costs when making decisions—that is, people should put aside the idea of wasting 20 dollars but should consider transportation costs and other possible losses.



LOSS AVERSION

*NOT WANTING TO WASTE
RESOURCES*

However, psychological research shows that people generally choose to go. Because the ticket has already been bought, if you don't go, it will be wasted. Generally speaking, people rarely consider transportation costs and discomfort at this time.

Everyone had a difficult time picking the right decision, and usually, it is the sunk cost that is making waves inside our minds. We should think out of the box as an onlooker and not be controlled by sunk cost, such as money and time, and do anything to go through the brain thinking.

Another important concept of economics-opportunity cost, that is, when people do something, they sacrifice many possibilities for obtaining other benefits.





Illustration Concept, Idea, Execution- Amiya Leekha



OPPORTUNITY COSTS

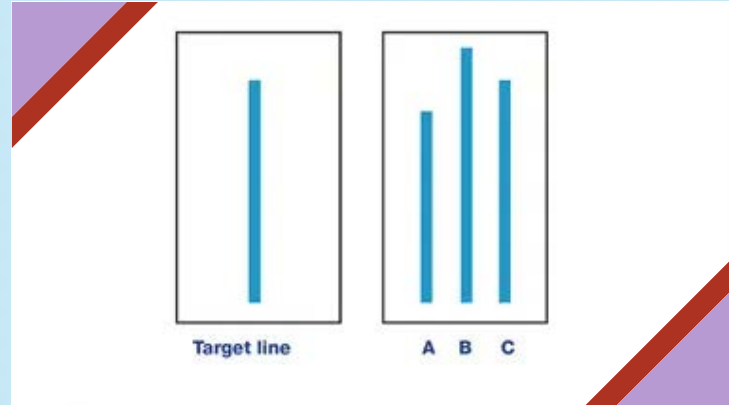
For example, if you have to pay tuition to go to university and don't have to work at university to make money, which of these two options is more costly? Obviously, what the former pay is the actual cost, while the latter abandons the opportunity cost. When making a choice, the two factors of cost should be considered at the same time. But the choice is not a simple mathematical operation, nor can it be done just by calculating gains and losses.

It is a psychological contest because the selection is also affected by various factors, such as relatives and friends' reactions, personal desires, and values. We have all noticed a phenomenon that educated women have far fewer children than uneducated women. Why? On the surface, the cost of having a child is about the same, but the cost of having a child for an educated woman is much more than the cost of raising a child. What they lose may be high salaries, promotion opportunities, and upcoming successes. For them, the loss caused by opportunity cost is hard to make up. On the contrary, the opportunity cost of uneducated women will be much lower.

Asch's Conformity Experiment

What is it?

An experiment was conducted by Mr. Solomon Asch. During the experiment, 6 participants had to look at three lines and answer which line was of the same height as the target line. (shown on the right). The answer was made exceedingly apparent.



Out of the 6 participants, 5 were people chosen by Asch as volunteers. Their answers were already decided. The last participant was the only real participant, and his answer was not pre-decided. This experiment was done 18 times.

How many times did the last person answer incorrectly?

12 out of 18 times! (that's 75% of the time!)

Why did the last person answer incorrectly?

It was revealed that most participants did not even believe in the answers that they said! But then why did they answer this way?

This is because of two influences- the Normative influence and the Information Influence. The Normative Influence is when we conform to others because we want others to like us. The Information Influence is when we conform because we believe that others have accurate information and know more than us. When making decisions, one must be mindful of such influences.



THE LAST SIP OF COFFEE

By Juhi Grover

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I walk into a cafe with my wet shoes, fuzzy hat, and a coat saturated with snowflakes. As I step inside, a warm breeze caresses my face, relieving me of all my tiredness and fatigue. I look around and regard the crowd- mostly young couples sitting by the tall windows and conversing with one another. I stroll towards the dimly lit counter and smell the rich perfume of arabica beans tinged with a dash of vanilla. I pluck my coffee and make my way to the end of the room, past the low chatter of the crowd. I settle into a delicate corner with a cushioned oak chair and a window and behold the mesmerizing scene before me-

I watch as the snow falls from the sky, tiny and delicate, as though it were composed of cotton. It dances around in the air, perfecting a pirouette, before tumbling onto the ground. As it hits the soil, it forms a thin layer over the rich, brown earth.

I take my first sip.

Think about the last time you went out to drink coffee. What do you remember? If you pay attention, then you'll discern that you don't recall much about the event or your feelings during the event. What you may recognize are 'snapshots' of your experience- the moment the coffee tasted way too sweet, or when you took your last sip and were left wanting more. You'll probably not recollect anything more than that. But why? **Why is our memory of events often in fragments?**

This is due to the '**Peak-end Theory.**' When we try to remember and analyze a past moment, our brain tends to focus on the 'peaks' of the event (i.e. the points where we felt the most intense emotions) and the ending. All the other, more neutral parts of the experience are often neglected. This makes us form a judgement based mainly on how we felt at the specific moments in the event instead of the event as a whole. The Peak-End theory is a grand theory that insinuates the unreliability of our memories. It was discovered by Dr. Daniel Kahneman in 1999. Dr. Kahneman states, "**Memory was not designed to measure ongoing happiness or total suffering. For survival, you really don't need to put a lot of weight on the duration of experiences. It is how bad they are and whether they end well; that is really the information you need as an organism.**" His theory is an interpretation of why people lead to making irrational decisions.

Coming back to the coffee scenario. When we drink coffee, our brain tends to remember only the peak events and ending, based on the Peak-End theory. We don't remember the little moments when our coffee is only average, and we know we can make it at home. We remember our first sip- our most delightful sip, and how we look forward to slurping the whole cup. We don't remember the tiny moment when the coffee feels a little too sweet; what we do remember is the last sip- when we are left craving



The Peak-end phenomenon is why we tend to overspend on items like coffee and junk food. While it isn't wrong to go out for food or drinks, we must make sure to form sound decisions based on a rational analysis of our prior experiences, without giving into bias. **By being aware of the peak-end bias and its influence on our judgement, we can reframe our memories to look at experiences as a whole rather than as unreliable fragments.**



THE PSYCHOLOGY BEHIND BUYING

By Navya Ghosh

When one thinks about this topic, the most obvious thing that comes to mind is that our mood influences our buying and selling in the market. We tend to buy more when we've had a good day at school or work and the opposite when it's one of those bad days. This is correct in layman's terms; however, if we dig a bit deeper, more everyday strategies will start to make sense to you! Let's start with a simple example of what happens when you walk into a movie theatre. Almost instinctively, your eyes fall on the popcorn machine. You know it's highly overpriced, but still, you buy it. Next, you decide to buy a ticket (obviously, if you've not purchased it online beforehand). Now, the ticket buying process is the tricky part. If it's your favourite actor's movie that has released that weekend, you won't want to buy a cheap weekday ticket for you fear you might get spoilers; however, buying that expensive weekend first-day first show ticket might not exactly make sense too. It's the same movie with the same experience that you're going to get to see on the weekday at a lower price. This is a real dilemma.



While you might not have thought about it, the movie theatre has used an Economic concept known as Price Discrimination.

It is a pricing strategy wherein identical or broadly similar goods or services are sold at different prices by the same provider in other markets. To explain this using the movie theatre example, we know that only the movie's die-hard fans or people who are bored on a Friday evening would want to see a first-day first show movie. There is nothing else in place of that movie which these people will do. So, for them, the movie tickets are priced the highest. As we progress through the week, lesser people visit the theatres. These include those people who had other options to choose from but chose to watch the movie instead. For them watching the film was not the only option but one of many possibilities. They are not the type of people who would want to pay high prices to see the movie. Therefore the prices for these types of people are lesser. Similarly, for popcorn, the people at the theatre know that there is no option for you to choose anything but the popcorn, thereby keeping prices high.

As an informed consumer you might think you'd make a more informed and educated choice when you're at the theatre next time, however, that extra buttery, highly overpriced popcorn on a Friday evening movie compares to nothing else!



THE TICKETING INDUSTRY AND THE RISE OF BOTS

BY JUHI GROVER



If you love going to concerts or watching live sports games, you know just how much of a hassle getting a ticket is. The price of a ticket changes every time you check, with prices shooting sky high when the event is far and then dropping to an all-time low as the event nears. But why is it that prices do not remain fixed? And how are they determined in the first place?

The price of tickets often fluctuates from time to time. This is because the ticketing companies don't follow fixed pricing. Companies that sell tickets follow a '**dynamic pricing**' strategy. Dynamic Pricing refers to the act of keeping flexible prices that change based on the market demand. The prices of tickets are decided by computer software known as '**bots**' that use computer algorithms to adjust prices automatically. These prices are based on the market demand. Bots analyze data, such as a customer's location, time of the day etc., about a customer to gauge how much they would be willing to pay. The customer's demand analysis is done using big data (collection of structured and unstructured data). This allows the bots to set the best price possible for the firm that is selling tickets.

Due to the loose restrictions regarding dynamic pricing and ticket scalping, the ticketing industry has been the brunt of many controversies. One such controversy questions the existence of bots and what they could mean for the future. Experts worry that the growing use of bots could lead to the formation of cartels and could make things more expensive for everyone. Bots are becoming increasingly efficient at tracking price changes and adjusting their prices accordingly. They can track every ticketer's tickets' dynamics and set the price that reaps the most benefit. Experts fear that these technological advances in bots may allow special types of cartels to form. The formation of such cartels could harm society by restricting economic growth and stunting the sale of honest and well-run companies.

PSYCHOLOGY BEHIND GOVERNMENT POLICIES



By-Navya Ghosh

While we are often critical of government policies because of the tall claims that they make and sometimes how unrealistic they can be, we also need to know that there is a huge process behind the making of those-taking into consideration the average needs of all citizens of that country.

When governments want advice on the likely impact of their policies, they traditionally turn to economists. Economists provide them with clear, well-developed models for predicting behavior. They make use of the 'utility theory'.

The concept of utility in economics is based on the behavior of individuals based on the premise that people can constantly rank order their choices based on preferences. The economic utility of a good or service is important to understand, because it directly influences the demand, and therefore price, of that good or service.

In practice, a consumer's utility is impossible to measure and quantify. However, some economists believe that they can indirectly estimate what is the utility for an economic good or service by employing various models.

This model helps policy makers to understand the need for the policy reform and also the response which it can get from people, to a certain extent.

At the same time governments also employ psychologists for they recognize that their policies may stand or fall on social, cognitive and emotional factors that typically economists don't take into consideration.



Behavioral economists are hired for this very reason and in fact, many recent governments have started putting this into action.

The UK's Behavioral Insights Team (BIT) brings together psychologists, policymakers, and economists to apply findings from behavioral economics and social psychology to improve public policy.

Since 2010, BIT has worked across nearly every domestic policy area, from health and energy to fraud and charitable giving. Recently, for example, BIT conducted work to increase the proportion of people on the UK organ donor register.

The United States too has set up a social and behavioral sciences team in the White House and other countries are in the process of doing the same.

While this may help formulate better policies it does not guarantee that it will benefit all. The choices of individuals are unique and no study or experiment can make everyone like the same things.

So, coming back to the statement made at the beginning- no, behavior studies would not completely eradicate our criticism for government policies but it surely would benefit a considerable amount of the population.

-ART CORNER-



"The Angel and Devil of Economics"

By Amiya Leekha

-ART CORNER-

Artist's Statement

Art can be found in everything. It is present everywhere, and keeping this in mind, I drew my artwork. Art lets us turn intangible topics into beautiful, tangible work. This work depicts how our thought process and our informed decisions, ideas are essential for profit. I made this similar to the way we usually see "angels" and the "devil" on each side of our shoulder, and the woman is eyeing the "angel," which is the good decision over here. Its calming tones and colours remind us to take it easy and make educated decisions regarding our profits and losses. Every brushstroke paints a story, and I hope you read it too :)

-Amiya Leekha



ECONOMICS OF **HARRY POTTER**



Written by:

JUHI GROVER

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The world of Harry Potter is furnished with extraordinary objects and places. It has everything one could ever want- from time turners and wands to butterbeer and chocolate frogs. It appears to be a meticulously crafted world with exceptionally well-planned details. However, that's not always the case. The economy of the wizarding world has numerous irregularities. Their economic systems do not make much sense. Here's how:

The books are set in Britain, which follows the metric system of measurement. One British pound is equal to 100 pence. On the other hand, the books' currency is Galleons, Sickles, and Knuts.

- **1 Galleon = 17 Sickles = \$4.80 USD**

- **1 Sickle = 29 Knuts = \$0.28 USD**

- **1 Galleon = 493 Knuts**

Confused? So are we.



Despite being set in Britain, the wizarding world certainly does not follow the metric system. It doesn't seem to obey any system. The assigned values of each type of currency do not have any rhyme or reason.

just like the currency does not seem to make any sense, neither does the financial system...

The only bank in the wizarding world is Gringotts, and even Gringotts doesn't operate as a regular bank. It works more like a safe deposit firm. Wizards can deposit and withdraw money, but there are no arrangements for loans or interest-bearing accounts. Since the 'bank' does not offer loans, most entrepreneurs need to find the money to start their businesses independently. This shows that the wizarding world does not foster innovation and growth. Furthermore, not loaning out any money can lead to concerns like a stagnant economy. When banks receive cash in the muggle world, they hold a portion of it in their reserves and loan out the rest. The loaned-out money eventually makes its way back to a bank. This bank again keeps a portion of it and loans out the rest. The process continues over and over again. This process helps the banks increase the money supply.



The more money the banks loan out, the more the money supply increases. If the banks do not loan out money, as is the case for Gringotts, there is no increase in the money supply. This means that there would be less money for people to invest in and less economic growth. This is another reason why the wizarding world has limited innovation and growth.

Now, looking at the wizarding world's labour market, it can be perceived that most of the jobs are provided by the government. The only private jobs present are in the few commercial markets, majorly Diagon Alley and Hogsmeade. So, if most of the jobs are government jobs, how does the Ministry of Magic pay for them?

There is no tax system present, and the Ministry does not seem to have any significant income source. It is reasonable to think that the Ministry borrows money from Gringotts. But where does Gringotts get its money from? It does not loan out the money its customers' deposit, so where does the money come from? The financial system is one of the most significant discrepancies in Rowling's Harry Potter.

The economy of the wizarding world is far from perfect. Despite its flaws, if there is one thing that the wizarding world teaches us, it's that we can stand up against what we think is wrong.

We have the potential to transform the world, even if it's only for one person. Harry gives his Triwizard Tournament winnings to the Weasley twins so they could start their own business. Hermione stands up for the elves and forms the Society for Promotion of Elvish Welfare to uplift the Elvin community. Throughout the books, the characters continue to support each other and stand up against any injustices. Their relentless efforts to help others serve as an inspiration for future generations, both wizarding and muggle.



Illustration Concept, Idea, Execution- Amiya Leekha

Do the economic laws apply in the magical realm of Harry Potter? Even though J.K Rowling set her characters in a world of magic, wizards remain subject to the implications of scarcity. As a result, the series is abundant with examples of basic economic principles such as trade-offs and opportunity costs, marginal analysis, and the power of incentives, to name a few. So, next time when you re-read Harry Potter, you might want to look out for these economic principles!



WHY DOESN'T INFLATION AFFECT DEVOTION?

BY SILVIA BAN



Some people may wonder why people continue to donate money to religious organizations during an inflationary period?

First, I would like to clarify a common misconception about inflation. Almost everyone thinks inflation is evil, but that's not necessarily true. Mild inflation, in the range of 2%, is good for the economy because it can promote consumption without destroying the value of people's savings. But extreme inflation will become a problem for the economy and citizens, especially since it makes life hard for people whose incomes don't keep pace with rising prices, such as pensioners and those with low pay. This is because high inflation decreases the value of their payments and savings. But now, let's only talk about mild inflation.

Does inflation have an enormous impact on the government, companies, and wealthy people?

The answer is NO. Inflation does make everything more expensive, but it also means that wealthy companies and people will make more money than before. Imagine you are growing, and your weight is increasing. Economics is like you. When you gain weight, it means inflation. As the inflation rate increases (as you are gaining weight), the more benefits a successful company will make (the more food you will gain). Those companies can maintain the companies' function and recover their finance from inflation. That is why religious organizations receive a large share of their donation every year, even during an inflation period.

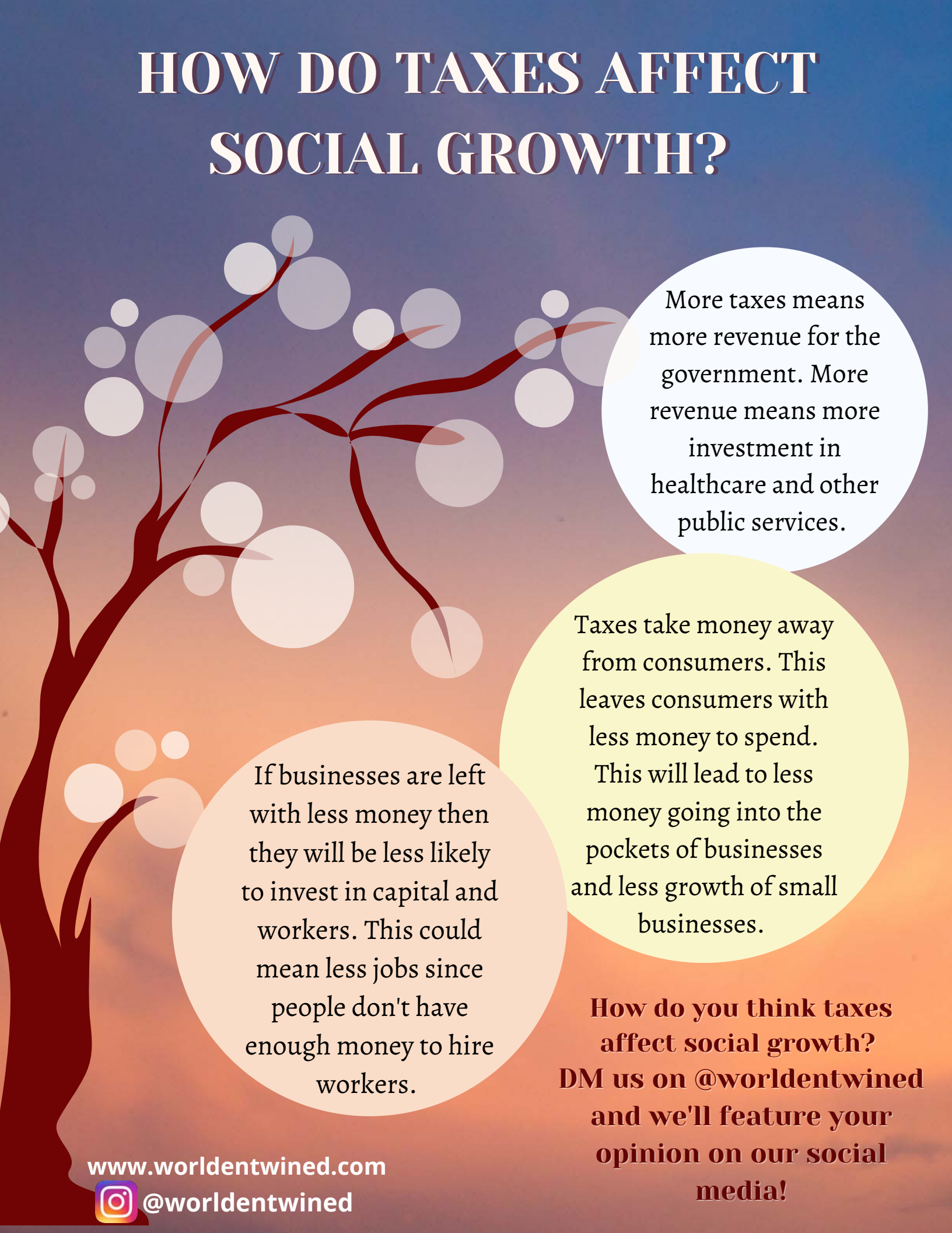


Every year, wealthy companies and millions of people donate money to religious organizations. They will keep the company's primary function and keep contributing to religious organizations as usual. Besides the fact that inflation doesn't affect large companies and wealthy people, we should not ignore religion's power. People contribute financially to organizations and groups to support causes dear to their heart; donors want to contribute to their fellow citizens' well-being or advance principles and values that they believe in. In recognition of the difference, these donations can make in the community, governments provide income tax credits to encourage giving by taxpayers or match the amount donated by individuals in some instances.

So, do you know the answer to this question now?

"Why doesn't inflation affect devotion?"

HOW DO TAXES AFFECT SOCIAL GROWTH?



More taxes means more revenue for the government. More revenue means more investment in healthcare and other public services.

Taxes take money away from consumers. This leaves consumers with less money to spend. This will lead to less money going into the pockets of businesses and less growth of small businesses.

If businesses are left with less money then they will be less likely to invest in capital and workers. This could mean less jobs since people don't have enough money to hire workers.

**How do you think taxes affect social growth?
DM us on @worldentwined
and we'll feature your
opinion on our social
media!**





HAPPINESS AND THE ROLE OF ECONOMICS

BY SILVIA BAN

Traditional economics is not very concerned about people's quality of life, or it reduces the quality of life to specific issues such as income, environment, and work pressure. In fact, the quality of life is also an important psychological variable. Because the judgment of the quality of life is a subjective judgment, income and environment cannot explain the problem.

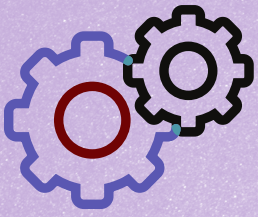
Psychologists have found that the quality of life is often affected by contrast effects. Our society divided human beings into two groups: the one who would like to compare themselves with the people who have a higher status than them; the other ones who like to compare themselves downwardly.

The natural psychological response of the upward comparison is more pessimistic; the downward comparison, people tend to be satisfied with their lives. By the same token, people's happiness index and money are not linearly correlated. Millionaires do not necessarily feel happier than low-income people. Unexpected wealth (such as winning lottery tickets) may increase wealth in terms of money. There was no corresponding improvement in life index and happiness. In many cases, the quality of life has little to do with economic conditions, but is influenced by people's subjective judgments.



In addition, the cultural way of thinking actually affects people's judgment of the quality of life. For example, in countries that emphasize individualistic culture (the United States, Canada, and Europe), people's evaluation of the quality of life is greatly affected by personal factors; while in countries that emphasize collectivist culture (China, Japan, and South Korea), people's evaluation of the quality of life is more affected by family, colleagues, friends, environment and living conditions, and less controlled by individuals. Studies have shown that Westerners' judgments on the quality of life are easily affected by emotions; for them, personal loneliness and loss are important evaluation indicators: therefore, when happy, people tend to evaluate the quality of life as high. Relatively speaking, the Orientals take personal experience and things themselves as key indicators.

CAREERS IN ECONOMICS AND PSYCHOLOGY



With these two subjects being one of the most common major and minor combinations of students at college, it is no unknown fact that these subjects open up a plethora of job opportunities.

Behavioral Economics is the most common and exciting career option which stems out of the combinations of these subjects.

Q1. What is it exactly?

Behavioural Economics used psychological experimentation to develop theories about human decision-making and how these vary from those implied by classical economic theory.

Q2. What are some everyday concepts covered in BE?

Rational choices, mental accounting, choice overload, irrational decision-making, information avoidance etc are covered here.

Q3. What are the different career paths in behavioral economics?

Market research analyst, consultants, professors, policy advisors, behavioral finance specialist

Q4. Where can I study Behavioral Economics?

Several universities offer this subject as one of their major courses for a masters degree. According to university ranking on the internet Duke, Stanford, Michigan University and UPenn are among the best.

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- some very comprehensive and easy to understand Instagram posts and blog posts

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You can read our previous magazine issues and newsletters on our website.



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THANK YOU!

We would like to acknowledge the contributions of every person involved in the making of this magazine. It is a culmination of numerous hours of hard work, dedication, and unhindered love for learning.

We would like to take this opportunity to thank the following people for their efforts, in no particular order:

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- Juhi Grover- Writing & Editing
- Navya Ghosh- Writing & Editing
- Saanvi Dhingra- Social Media Content Designing
- Silvia Ban- Writing

With that, we come to the end of our Economics and Psychology journey. These past couple of months have taught all of us how deep-rooted and interconnected these two subjects are.

While no market works without influencing the human brain, the human brain reaches its point of satiety by consuming from the market.

Join us next time as we explore Space Science and History!

*You can find our bibliography links in our Linktree to get further references for everything explained in this magazine.

