

FINANCIAL BEHAVIOR OF THE HOUSEHOLD AND THE INDIVIDUAL: SOME ASPECTS OF THEORETICAL ANALYSIS

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Abstract: The present study aims to describe the economic behavior of the individual and the household as an institution with its own internal structure and active economic relations with the environment with the understanding that they are objectively necessary, relatively independent economic entities and participate in all phases of the reproductive process. The main differences between the researchers' approach to describing the financial behavior of the individual and the household from the point of view of the neoclassical and institutional theory are presented. Popular models of economic behavior depending on the degree of rationality in the behavior of the analyzed subjects of financial relations are described.

Keywords: Personal finance, Neoclassical synthesis of households, Institutional synthesis of households, Models for making personal financial decisions

INTRODUCTION

Personal finance has roots in economics, financing, managing decision-making processes, and allocating financial resources in an efficient manner to the individual and family in order to maximize their economic well-being and standard of living.

Personal financing includes the application of principles and rules from a variety of different fields such as: business administration, economics, sociology, psychology, adult learning and training, and counseling in favor of new and creative ways of learning in which individuals, families and households acquire and allocate economic resources intelligently and efficiently (Hira, 2009).

There are a number of socio-economic theories that focus on the behaviour of households and individuals in different socio-economic conditions. We will focus our attention on the study of households as a subject of financial relations from the standpoint of neoclassical and institutional synthesis.

NEOCLASSICAL SYNTHESIS

The literature on economic methodology deals mainly with questions and issues dealing with the confirmation and empirical validity of economic theories or empirical theoretical choice, with the aim of knowing whether economic theory can be defined as good and solid science, capable of providing correct and proven predictions. (Hausman, 1989 within Brahmachari 2016).

The neoclassical financial approach believes that the financial system is governed by clear rules of supply and demand that lead to optimal market equilibrium. Transactions are carried

out between voluntary sellers and voluntary buyers when prices are set without the need for outside government intervention or another body. Classical theory believes that individuals, manufacturers and consumers, each individually strive to maximize their profit and benefit when the assumption is that markets are run without friction, there are no transaction or brokerage costs and people always behave rationally.

Neoclassical economists often justify their research methods by using scientific research methods developed by Lakatos, and relying on various philosophers of sciences like physics to defend the scientific status of economics. "In 1972, Spiro Latsis published a case study titled 'Situational Determinism in Economics' in 'The British Journal for the Philosophy of Science'. The paper put forwards the methodology of neoclassical economics as a case study of Scientific Research programme" (Lakatos, 1970 within Brahmachari 2016 page 9)

The position paper actually presents Milton Friedman's methodology as 'pseudo-scientific' in terms of evaluating the philosophy of Lakatos' science. The main difference between scientific theories and 'pseudo-scientific' theories lies in their ability to predict empirical facts that can be tested and verified. Latsis argued that Friedman's methodology of neoclassical economics could not be defined as scientific, based on this principle. (Latsis, 1972 within Brahmachari 2016).

According to situational determinism, the situation in which the agent, and the firm are, determines their behaviour. Latsis explains that situational determinism is a degenerate research program that does not know how to explain or predict certain outcomes because it ignores external influences and psychological biases that may alter or affect the end result contrary to the rational assumption (Brahmachari, 2016).

In fact, this position presented by Latsis, well reflects the neoclassical financial approach that believes that the financial system operates according to clear rules of supply and demand and trades between voluntary sellers and voluntary buyers, with prices set without the need for external government or other intervention. Neoclassical theory assumes that markets operate without friction, with no costs or mediation, and assumes that people always behave rationally. The neoclassical paradigm is challenged by 2 different concepts: the new institutional and behavioural economics. Behavioural economics gives weight to the environment, external influences, and psychological and emotional factors that may influence the decision-making process of an individual or of the household and may better predict different possible outcomes. (Merton, R. C., & Bodie, Z. (2006).

The main postulates on which the neoclassical theory is based in describing the behaviour of individuals are reduced to the following statements:

First, insofar as the individual always pursues his own benefit and not someone else's, his behaviour is strictly individualistic and is not influenced by external factors. Pursuing their goals, individuals form the mechanisms for the functioning of the economic system and, therefore, all social phenomena are the result of the behaviour of individuals and the interaction of their individual motives.

Second, individuals are able to achieve their goals in full compliance with the means used. Their rational behaviour allows them to allocate limited resources to get the most out of their needs.

Third, their preferences are transitive and stable - ie. each individual has stable selection criteria and does not change them every time he enters the market (transitivity) and is reluctant to change his preferences often, as a result of which their behaviour would become unpredictable (stability).

INSTITUTIONAL SYNTHESIS

Institutional economics attempts to explain the role of the evolutionary process and the role of social, private, and public institutions in shaping the economic behaviour of the individual and

business owners. Veblen criticized the traditional economic theory and he believed that the economy is deeply integrated into social institutions. Veblen stressed the need for economists to study economic problems, paying attention to the connection between economics and social and cultural phenomena, and made it possible in a sense to see economics as an evolving entity of bounded rationale (Hodgson, Geoffrey M. (2004).

Bounded rationale is the idea that the individual decision-making process is rational to a certain extent because the individual makes his decisions according to his personal preferences, and his limitations which may include the difficulty of the decision-making problem, and the cognitive ability of the individual to deal with the problem. Often people make suboptimal decisions, without examining the cost versus benefit to determine their optimal decision, and therefore it is difficult to anticipate their behaviour. (Diggins, John P. (1978).

Veblen was known for his critique of the phenomenon of profit maximization as human behaviour. In his important writing, *The Theory of the Leisure Class*, he criticized the phenomenon of wasteful consumption, which is characterized by leisure status which is considered to be at the top of the social scale. According to him, the rich people, from the upper social class tend to consume excess consumption of products at prices that are higher than the economic value just to demonstrate their high social class compared to the working class in society (Hodgson, Geoffrey M. (2004).

Mitchell, as well as other founders of institutional perception, saw the institutions as the driving force of social development. Institutions such as family, state, monopoly, trade unions, competition, legal norms, and social psychology.

The object of analysis of the institutional is the evolution of social psychology. The emphasis is not on the individual, but on social psychology and the analysis of the collective connections between people. There is an emphasis on a system of rights and legislation, a political and social structure of society. Institutionalists believe that the study of the evolution and functioning of economic institutions should be the central theme in economics.

The traditional institutional approach recognizes that human behaviour is constantly changing and economic generalizations should be relative to time and place.

They emphasize custom, habit, and law as ways of organizing economic life and they hold that important motives affecting people cannot be measured without understanding the interrelationships and connections between the various parties. Institutionalists criticize capitalism for creating a distortion in favour of the rich and the upper class and on the other hand harming economic well-being and the weak.

The new institutional economics approach challenged the neoclassical paradigm and argued in contrast that transaction costs exist, there is an effect of regulation on pricing and execution of transactions in the financial market and there is an influence on the structure and operation of financial institutions and banks, Financial intermediaries, insurance companies, investment houses on the execution of transactions and prices.

In addition, this approach has focused on institutions in the sense of social and legal norms and rules such as social norms, values, ideology, social capital, asymmetric information, limited rationality, opportunism, bargaining power, human assets, and laws and argued that all these factors influence transactions and prices.

British economist Ronald Harry Coase, winner of the Nobel Prize in Economics in 1991 spent much of his time in law school and his important articles influenced the fields of economics and law. One of the articles he wrote in 1937 and is very influential is the nature of the firm. In this article, Coase explains why the economy involves a number of businesses instead of a large number of self-employed people who are bound by contracts and agreements with other people.

Coase talks about ancillary transaction costs associated with the market and exceeding the price of the goods, such as the cost of getting goods, bargaining costs, costs of searching for information, keeping trade secrets, and enforcement costs.

These costs need to be taken into account when making a transaction between people so if companies are formed they will be able to produce goods and services to supply the product without these costs.

One of the important theorems in economics and a theorem named after Coase is the "Coase theorem" which describes the economic efficiency of an allocation or economic outcome in the presence of negative or positive externalities.

The law argues that if external trade is allowed and there are sufficiently low transaction costs, bargaining and negotiations will lead to an efficient Pareto result regardless of the initial allotment of the property.

American economist Douglas North whose main contribution is in innovating research in the field of economic history understood the imperfections of the neoclassical approach in being able to explain the development of markets and institutions. In 1991 he published an important article entitled "Institutions".

Institutions are various constraints created by individuals and are composed of sanctions, customs, traditions, beliefs, and values, rules of conduct, norms, laws, and property rights. Over the years, the institutions have been designed to create order and reduce uncertainty for the various parties in the transaction. Together with the standard constraints of the economy, they affect the decision-making process and therefore determine transaction and manufacturing costs and hence the profitability and viability of a transaction. The institutions are shaping the economic system in the country and influencing its economic growth and the volume of transactions. The degree of efficiency of the institutions depends on enforcement by the government, the organization discipline and order in the country and compliance with its laws.

North argues that neoclassical economic theory ignores the institutions required to create efficient markets with low monitoring costs and transactions.

North notes that transaction costs are high because there is asymmetry and gaps in the information of both parties to the transaction regarding the quality of the goods. Thus, every person should invest time and resources in clearly the quality of the goods and in enforcing the terms of trade so that they are legal and fair for both parties to the transaction. Also, people and organizations make decisions based on imperfect ideologies that are driven by certain mental perceptions that impair the ability to maximize personal or social benefit.

North argues that these costs constitute a barrier and a hindrance to economic growth and therefore have a central and important role for political and economic institutions to produce mechanisms that will prevent these biases and prevent the possibilities of fraud and theft that will harm the social benefit of the general public.

Oliver Williamson was the first to coin the concept of new institutional economics. An American economist who has won the Nobel Prize for developing theories of transaction cost, and information costs and dealing with the question of how economic factors create fair and effective fair contractual arrangements despite problems of information gaps and asymmetry.

In describing household behaviour, institutionalists emphasize the norms, rules, and stereotypes of thinking that affect people in the real world. According to them, the most important factors determining the direction and scope of financial decisions are: the internal structure of the household, the motives for its formation and objectives, and the biggest challenge is the high degree of uncertainty resulting from limited awareness of environmental characteristics.

In traditional institutionalism, the category of "household" is defined as an economic institution that is a form of interaction of individuals with each other. Institutions, in turn,

influence the financial behaviour of the individual through a system of norms, habits, and guidelines.

Representatives of the neo-institutional economy argue that some economic agents have more information and a relatively higher degree of financial knowledge, which streamlines their choices. As a result, some of their actions cannot be defined as purely individual - ie. they are always influenced by the external environment. E. North describes the institution that determines the rules of behaviour in society, the restrictive box taken by people, in some way normalizing the system of relationships between individuals. At the same time, the description of domestic production is as an economic subject operating in a certain institutional environment, the characteristics of which are not fully learned from traditional institutionalism. "Institutions set the framework for the perception of interests, but at the same time individuals are able to change institutional frameworks", North said. (North, 2012). This statement gives us reason to derive both specific characteristics of non-institutional theories: first, social institutions are important in analysing the behaviour of individuals, and second, they are amenable to research.

ECONOMIC BEHAVIOUR AS DECISION MAKING

Restrictions in decision-making arise within the decision-making task that mediates economic action include not only "standard" constraints on available material, labor, natural resources, and so on. resources. These include limits on the information available, as well as a time limit - for the amount of this period of time during which it is necessary to optimally (in terms of a specific target function) allocate resources.

The unique individuality of the human personality gives rise to various motives for financial decisions and requires the use in scientific analysis of a "single model" of man, operating in a particular system of socio-economic conditions. The starting point in the development of models describing the behaviour of the individual in making financial decisions is the degree of rationality.

Among the many areas of "modelling" of man can be distinguished complete and limited rationality of economic behaviour.

The first direction presented by the English classical school and neoclassicism is based on the idea of completely rational behaviour of the individual, whose main motive in the activities of the "economic man" is selfish, primarily monetary interest. The most popular models, subject to the rational choice of individuals in the management of personal finances, "are based on the understanding that households are a strictly ordered and coordinated set of preferences, and their behaviour - as a set of optimizing actions that are aimed at maximizing the target function of utility,, (Radulova, 2012).

Complete rationality, as a theoretical statement, presupposes that one makes the best possible use of all available information and achieves the greatest correspondence between the results achieved and the costs incurred. The following is the essence of some of the most popular theories, which are based on the understanding of complete rationality in the behavior of individuals.

➤ **The Expected-Utility theory.** many financial behaviors of households, individuals and families are based on intuition, life experience and non-cognitive and psychological effects. One of the theories that formed the basis of rational economic behavior is the theory developed by mathematician John von Newman and economist Oscar Morshtein to describe how people make decisions in various fields like economics.

The theory assumes that humans or "economic agents" make decisions rationally and that they want to maximize their usefulness. The theory has led the economic approach since the 1940s and is still widely used in many cases.

the Expected -Utility theory is a theory under risk conditions, with each option leading to a different outcome given a predetermined probability. People want to maximize their usefulness between risky options. They evaluate the usefulness of the outcome according to the different probabilities and choose the highest option (Luce & Raiffa, 1957)

➤ **The prospect theory**, Contrary to the theory of expected utility which holds that people choose the alternative that gives them the highest utility from the various options, the prospect theory developed by Tversky and Kahneman claims that when making a decision, people consider profit and loss asymmetrically. According to this theory, people give greater weight to loss than to gain, and therefore will be more afraid of losing than not gaining. This conclusion contradicts theories based on the rational behavior of people in which loss and gain have the same value and weight.

The prospect theory formulated by Kahneman and Tversky as early as 1979 describes the behavior of people in decision-making under conditions of uncertainty. The theory has many uses in social psychology and behavioral economics. Kahneman and Tversky conducted a number of experiments and showed that people do not necessarily behave according to the "expected utility" theory and their choices are not necessarily rational.

The prospect theory actually challenges some basic assumptions of the expected utility theory and provides an important alternative theory to people's socioeconomic behavior (Levy, 1992). Kahneman and Tversky have demonstrated a series of biases in some of which also refute the predictions of the expected utility theory. In their alternative model, they actually created a new field called: behavioral economics.

➤ **"Certainty effect"** - people give too much weight in their decision to a certain result compared to a result that is not probable. For example, in an experiment conducted among people, they had to choose between receiving \$ 3,000 with certainty or getting \$ 5,000 with an 80% probability of winning. It turns out that even though the profit expectation is higher in the second option, most people preferred the first option and chose to pocket \$ 3,000 for sure without being exposed to unnecessary risk for them.

➤ **"Reflection effect"** - it turns out that people will not always prefer certainty. Continuing with an earlier example, it turns out that the preference for risk in conditions of uncertainty depends on whether we anticipate a profit or loss. When people were asked to choose between a first option, losing a certain amount of \$ 3,000 or choosing a second option that offers a \$ 5,000 loss with an 80% probability (there is a 20% chance of not losing), most people, unlike their choice in the previous example, certainly chose to win \$ 3000, this time, people preferred not to choose for sure to lose the small amount of \$ 3000, and instead chose to take a risk and choose the second option, where there is a small 20% chance of avoiding a loss. In fact, in this example, we see that although the data are a reflection of the first example, people have changed their answer, because now the certainty has changed from a certain margin to a certain loss. Those people who hate risk in one choice, may love it in another choice. This effect of reversing attitudes is called the reflection effect.

➤ **"Overweighting of small probabilities"** - People tend to overweight events that occur in small probabilities. For example: if we offer people to choose between 2 alternatives, the first, the option of getting \$ 5000 with a 45% probability compared to getting \$ 2500 with a 90% probability, most people will prefer the second option, i.e., get \$ 2500. Conversely if we offer people \$ 5000 with a probability of 0.001 or \$ 2500 with a probability of 0.002 most people will change their choice now and prefer the first option, and choose to get \$ 5000. It turns out that even though we did not change the winning ratio between the 2 different options and even though we left the winning ratio as it is, most people do not psychologically know how to make a difference and there is a bias in their choice that causes them to change their choice. A similar effect is reflected in lottery bets, in which the chances of winning are very low to slim.

➤ **"Framing effect"**. This effect argues that a different presentation of data in question can lead to very different decisions from each other. For example, imagine being given \$ 1000 and now having to choose whether to go with \$ 500 for sure or go with \$ 1000 with a 50% probability, most people prefer the first option. On the other hand, if you are offered \$ 2000 and now have to choose whether to give \$ 500 out of the \$ 2000 or give \$ 1000 with a 50% probability, it turns out that most people prefer the second option. We received a different answer and a possible explanation for the phenomenon is: in the case of \$ 1000 the starting point is low and the bet on a certain risk without risk seems to pay off according to the certainty effect. In the case of the \$ 2000 starting point, it is higher and the bet on giving 500 shekels certainly seems like an unprofitable loss. It can be seen that in fact, what matters in the above case is not the final situation but the process or type of change from the starting point: increase or decrease (Kahneman & Tversky, 1979; Tversky & Kahneman, 1986).

➤ **"Loss aversion"**. One of the important and problematic claims of Kahneman and Tversky is that people tend to dislike a possible loss more than the enjoyment of a possible margin. The subjective weight of losses is greater than that of gains. Risk aversion is the reluctance of a person to accept a transaction whose outcome is uncertain, over a transaction whose outcome is more certain, even if the expected profit in the certain transaction is lower. For example, a person would rather get \$ 1000 for sure than get \$ 2000 with a 70% probability (Tversky & Kahneman, 1981).

➤ **"Exponential growth bias"** - As can be seen there are many biases that affect consumers and households and cause them to sometimes make irrational decisions or misjudge the real transaction costs of financial products and services that households consume. One of these biases is called exponential growth bias. According to this theory, consumers rarely assess correctly how the yield of compound interest behaves over time and therefore have difficulty estimating the future economic value of the loans they take from the banks. For example, in long-term loans, borrowers have difficulty quantifying all the real costs of the loan, including commissions and the calculation of the compound interest rate to the bank becomes complex for him. The consumer does not always fully understand that the interest rate on the loan is actually higher. And this difficulty even exacerbates when it comes to short-term loans. Because this is a short-term loan period, the principal is offset relatively quickly than long-term loans and therefore the consumer ignores the many costs in the short term and even tends to dwarf them. This is also one of the reasons why the consumer rarely saves in the long run, as he has difficulty assessing the effect of compound interest on his long-term savings and he underestimates the return that the savings will yield him over time (Stango & Zinman, 2009).

The second direction is inherent in institutionalism. Human models developed in this direction seem more complex and are based on the hypothesis of **limited rationality**, which reflects the inability to use the completeness of available information in economic decisions due to difficulties in collecting and analyzing it, as well as limited cognitive abilities per person. The analysis of a person's economic behavior is also complicated by the non-economic component in the motivation of his activity (altruism, religious attitudes, etc.), i.e. a component whose share increases with the development of human society.

Some of the popular models based on the concept of **limited rationality** are the following:

➤ **Human ecological model**. The human ecological model (Bronfenbrenner, 1979) Describes individuals as dynamic and active actors who influence their environment and at the same time are influenced by interaction with society and their external and internal environment consisting of different and diverse specifications at different levels of closeness. The decision-making process is influenced by the interaction with those factors and values that encompass and influence the individual.

The first and closest envelope for the individual includes immediate family, friends, classmates, employees, and community colleagues. The other systems that make up the environment include various bodies and organizations, as well as cultural values, social conditions, political ideologies, and performance in the financial market (Bronfenbrenner, 1979).

➤ **Family Management Systems.** Deacon and Firebaugh (1988) Use the world of concepts of system management consisting of inputs, outputs, planning, production and efficient allocation of inputs in order to increase and maximize output production. A family should be run as a sophisticated and efficient system with a limited number of inputs and resources. The inputs are actually the family members and the assets and financial means at their disposal and through them they have to satisfy all the demands of the family and even invest wisely to increase the resources of the family in the future and thus contribute to the economic well-being of the family and individuals.

➤ **Models of intertemporal choice.** The theory of discounted service is the most common framework for Analysis of intertemporal choices. This frame was used for description Actual behavior (positive economy) and it was used to determine optimal social behavior (normative economy). When individuals are required to make a decision and choose between a product or service that they may receive immediately or wait and postpone receipt of the product or service for a later time, it turns out that individuals prefer ongoing, immediate present rewards over later rewards of a similar and even slightly larger size. Take for example a common experiment that presents this particular preference. When students asked in class, whether they would prefer to get fine and delicious chocolate at the moment or whether they would rather wait for next week and get 2 chocolates for their wait, almost all the students now preferred to have only one chocolate. In contrast, it was interesting to see that when students were offered one chocolate in about three months or 2 chocolates in a month and a week, almost everyone agreed to wait another week beyond a month to win and receive 2 chocolates. In fact, this question is very similar in terms of time to the first question, however the time dimension is crucial in making the decision and we see that in the first experiment, the individual attaches more importance and appreciation to the reward he receives in the present immediately over the future. On the other hand, when in the second experiment, in both cases it is a question of receiving a product in the distant future, the answer of the individual changes (Lazaro et al., 2002).

➤ **Life cycle hypothesis.** The life cycle hypothesis is an economic theory that describes the spending and saving habits of people during life. The idea was developed by Franco Modigliani and his student Richard Bromberg (1963). The theory holds that people seek to manage and finance their consumption throughout their lives by a loan when their income is low and through savings when their income is high. It is assumed that people plan the expenses throughout their lives, taking into account their future income. Accordingly, they take on debts when they are young, assuming that future income will allow them to pay it off. They then save in middle age to maintain their level of consumption when they retire. A graph of a person's overtime expenditure thus shows a hump-shaped pattern in which the accumulation of wealth is low during adolescence and old age and high in middle age (Ando & Modigliani, 1963).

➤ **The life cycle model or the overlapping generation model or the dynasty model** - these are the most common models that economists use to describe an individual's economical behavior. According to Laitner (2004) the life cycle model speaks of there being a lack of uniformity in the gains a person earns throughout his life, while the lineage model describes the wealth that a person can inherit after a generation from his parents (Laitner, 2004). According to McGuigan et al. (2005) the life cycle model or intertemporal consumption theory was first introduced by Irving Fisher in The Theory of Interest which

emphasized that the individual gets to save the most during his middle life. In addition, Friedman's life cycle model predicts that during the schooling age and early of working life time, individual will borrow against their future earning. This behavior can cause an individual's savings to drop so dramatically that he or she may not be able to save at all at a stage that is in its infancy and at a young age. Conversely in the middle stage of an individual's adult life when he starts working in an orderly fashion, his cumulative savings should increase significantly depending on his income and then basically when he reaches retirement age, once again we should expect his income to decrease and accordingly his ability to save to decline significantly. In the dynasty model the individual may inherit wealth from his parents and have financial wealth at an early age compared to the situation according to life cycle theory, where a person accumulates his wealth moderately from an early age, through school to mid-life, when at retirement the individual uses capital be reduced.

➤ **Behavioral Life Cycle Hypothesis.** Thaler and Shefrin (1988) developed the behavioral life cycle model which holds that people tend to spend more and spend more when they are more financially established and when they value their level of wealth as high. Educated people, young people and those who estimate that their income will increase in the future will tend to spend more today. The model draws on and continues their research that dealt with the effects that self-control and the "wealth effect" of people have on their levels of savings and consumption.

For example, a rise in stock prices may contribute to a great sense of wealth in people and an increase in the level of their expenses. In addition, it is important for people to perceive their sources of wealth and their level of liquidity in the eyes of the people.

The behavioral life cycle model describes a situation where people tend to spend their liquid assets first like bank accounts, deposits, and checks and only at the end will they touch on financial assets intended for retirement or in case of emergency.

It also turns out that the level of savings among consumers can be increased by charging employees to save more and set aside for their pension a certain amount from the salary. People tend to spend less on assets they perceive as less liquid (Shefrin & Thaler, 1988).

➤ **Household financing** is a term described by Campbell (2006), a leading economist. He noted that the study on household funding can be divided into (a) positive household finances, research on what Households do to understand why they behave this way and what factors influence their behavior and their decision-making process. These are cognitive and non-cognitive factors. And (b) a normative or prescription household Financing, which emphasizes patterns of action and prescriptions such as general Thumbs up based on experience and intuition that households actually act on (Campbell, 2006).

Conclusion

The described features of the neoclassical and institutional synthesis in relation to the behaviour of individuals and households and the models of behaviour derived on this basis outline the main differences between neoclassical and institutional theory and neo-institutionalism.

First, unlike neoclassical, institutional theory defines the existence of institutions as a necessary prerequisite for analysing the behaviour of economic agents and the allocation of resources. The emphasis in the study of institutions is placed on aspects related to efficiency, explaining the formation of institutions based on the model of rational choice.

Second, unlike neoclassicism, institutionalists view institutions not only as technological entities (households) but also as structures that regulate the interaction between individuals. This circumstance necessitates a special study of the processes of interaction in information processing, in obtaining and using knowledge in choosing incentives and control in decision-making within the household.

Third, neo-institutionalists recognize the most important neoclassical postulates, but focus their efforts not on the general patterns of behaviour of economic agents, but on their characteristics. This approach overcomes many of the limitations inherent in neoclassical theories. At the heart of the patterns of behaviour they have developed is microeconomic analysis, which they believe applies to all spheres of society, taking into account their economic and socio-political effectiveness. The approaches used allow a more accurate and realistic interpretation of the peculiarities of economic development and possible solutions to its problems.

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