IN THIS EDITION



# THE DISRUPTIVE DISPATCH

November 2021

# CONTENTS



Graphics

Shreya Akurathi & Supriti Rosita

# Behavioral Economics: A Consummate Middleground


## Introduction

When we hear the term Behavioral Economics, our minds often wander to big corporations and their tactics to pull customers. However, in reality, the concept seeps much beyond the surface and finds itself to be the catalyst of an economic revolution, one that discounts the presence of traditional economics and takes into account the realities of life.

The most important thing about Behavioral economics is that it is perhaps the most intuitive field in economics because of the path it treads. It walks the thin line between psychology and economics, combining arbitrary economic concepts to the people's psyches, thus making it a more palatable field than traditional economics that heavily relies on extremely obscure and perfect assumptions.

*'We are really far less rational than standard economic theory assumes. Moreover, these irrational behaviours of ours are neither random nor senseless. They are systematic, and since we repeat them again and again, predictable,'*

*- Dan Ariely in his book, Predictably Irrational.*

Every choice we make, when it comes to buying something, be it out of sheer spite or out of a sinking feeling to not lose more money, every decision finds itself masked as a concept in BE. These decisions not only influence our life trajectories but often perpetuate themselves in various ways, thus forming vicious cycles that know no beginning and no end.

## History

Although behavioral economics concepts are not really new, and we often subconsciously implement a lot of these in our daily lives, their legitimacy wasn't known until the 1980s. Two Israeli economists, Daniel Kahneman and Amos Tversky are considered founding fathers of the field. Their work helped bring light to the psychology of the consumers and helped shift the narrative from idealistic assumptions.

Kahneman later went on to win a Nobel Prize in the field of economics for, 'having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty.' Later on, in 2011 he wrote his best-selling novel, Thinking Fast and Slow that detailed his time working with Tversky and their groundbreaking research.

TVERSKY AND KAHNEMAN'S WORKING RELATIONSHIP HAS BEEN VERY APTLY DESCRIBED AS A MARRIAGE, ONE THAT FINDS COMFORT AND SOLACE IN THE OTHER'S COMPANY, AND AT THE SAME TIME, ONE THAT SPARS WITH THE MOST EXTREME VOLATILITY. AFTER HIS WORK WITH KAHNEMAN, TVERSKY BECAME A FELLOW OF THE AMERICAN ACADEMY OF ARTS AND SCIENCES AND RECEIVED THE MACARTHUR FELLOWSHIP IN 1984.

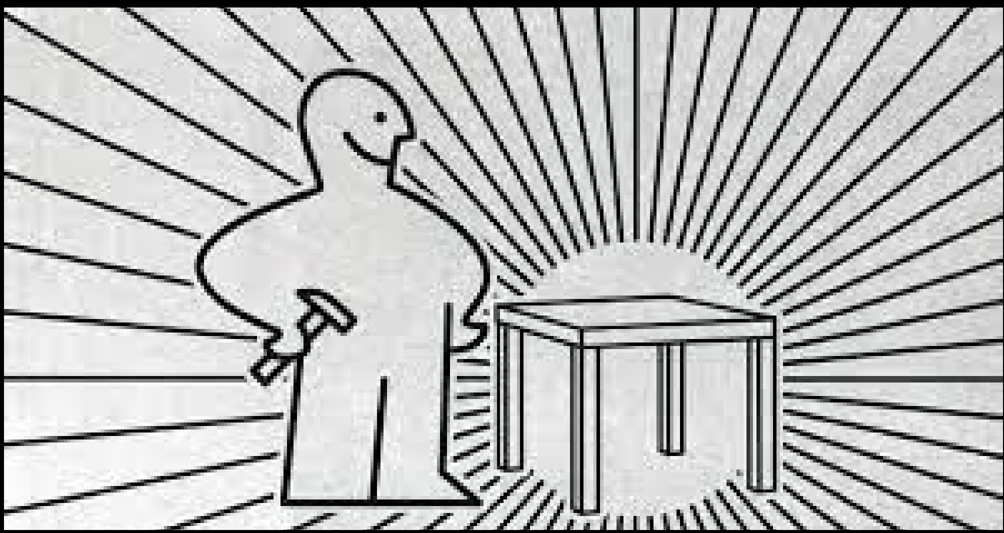
Unfortunately, Tversky very tragically passed away in 1996, 6 years before Kahneman won his Nobel Prize. Nobel Prizes are not awarded posthumously.

After Kahneman and Tversky, came Richard Thaler, the world-renowned economist who helped further the prospects of Behavioural Economics. Thaler, a pioneer in the field, is the 2017 recipient of the Nobel Memorial Prize in Economic Sciences for his contributions to the area of Behavioural Economics. Thaler is known for popularizing a host of concepts, the most prominent of which being the concept of *nudge and sunk cost fallacy*. A lot of Thaler's work has been derived from real-life, concrete observations, which helped him understand the psyche behind deviating from the traditional theories of economics.
One of his most prominent observations was when his friend and he were willing to forgo concert tickets that they got for free because of a sweeping snowstorm. But, had they paid for those same exact tickets, they'd be more likely to go because of the efforts that would've been spent in earning the money that paid for the tickets. Through this series of empirical observations and past theories, Thaler formed more concrete opinions and eventually revolutionized the field we're currently talking about.

Thaler also co-authored the 2008 bestseller Nudge, which chronicled the decision-making and the backend of everything that actively influences economics. Nudge was ahead of its time, in more ways than one can imagine. Thomas C. Leonard in his review of Nudge for the Yale University Press called the book ‘charming’ and ‘consistently self-referential’.
*‘This is a book that both measures the inroads psychology has made into contemporary economics, and argues a compelling brief for the new paternalism,’ Leonard further went on to mention in his extremely poignant review about the book.*

## The Ikea Effect

As we move further in our understanding of the field, it’s hard to overlook the Ikea Effect. The Ikea Effect was originally written in a research paper published in the 2011 Journal of Consumer Psychology and was written by Dan Ariely, Michael Norton, and Daniel Mochon.



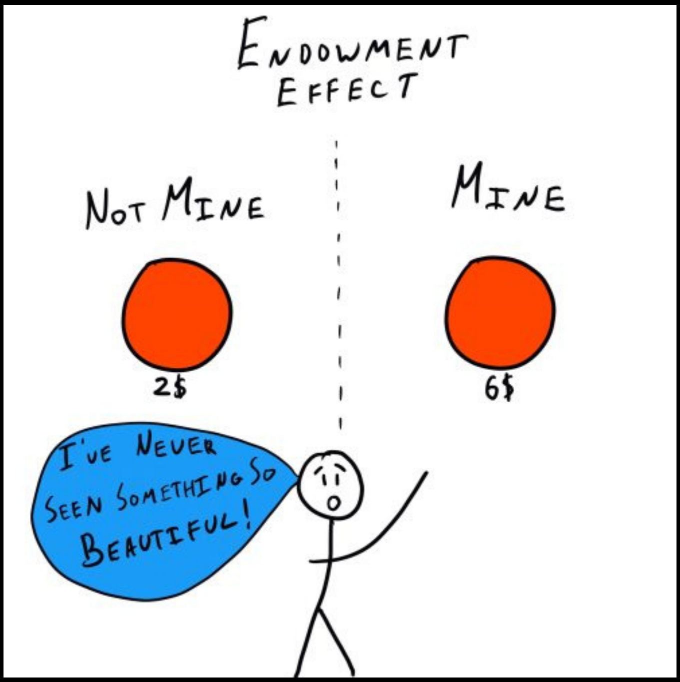
Oftentimes, we tend to be more attached to things that we’ve created or slogged to achieve. Rightfully so, there’s a sense of entitlement to anything that we earn. Expansion of energy changes human perspectives on any particular object and makes it a much more, perhaps, overtly valued possession. The Ikea Effect is similar to this. The effect draws from the Swedish giant primarily because of assembly. Every Ikea product is very heavily manufactured and requires extensive assembly, making it a more exhaustive process. The countless hours also make these Ikea products seem more appealing and thus making the brand more consumer-friendly in the process.

CIRCLING BACK, THE EFFECT, IN A NUTSHELL, MENTIONS HOW IF WE'VE PUT IN SOME EFFORT INTO MAKING/BUILDING/ACHIEVING SOMETHING, WE TEND TO OVERVALUE THE PRODUCT. THE DICHOTOMY BETWEEN CREATION VERSUS BUYING IS SOMETHING THE IKEA EFFECT MAINLY FOCUSES ON. THE CAUSALITY IS UNDENIABLE, BUT WHAT WE TEND TO FORGET IS, IN ORDER TO GET SOME EXTRA MONEY, MAYBE, LATER ON, THE PERSON SPENDS AN ENDLESS AMOUNT OF TIME IN THE ASSEMBLY AND MAKING THE PRODUCT, EVEN IF THAT MEANS SPENDING BEYOND A LIMIT AND KEEPING ALL PERSONAL GOALS ASIDE.

THE IKEA EFFECT ALSO DISCUSSES COGNITIVE DISSONANCE, A RATHER EXCITING THEORY DEVELOPED BY SOCIAL PSYCHOLOGIST LEON FESTINGER. IN SIMPLISTIC TERMS, COGNITIVE DISSONANCE TELLS US THAT WHEN WE BEHAVE IN CONTRADICTORY WAYS, IT LEADS TO IMMENSE PSYCHOLOGICAL DISCOMFORT.

If we had to relate this to an example, consider that you're a homeowner currently in a dire state. You've just taken out a second mortgage on your house, but as you're window shopping, you see a very fancy product and have an insatiable urge to bill it on your credit card despite knowing that it's going to be impossible to pay the bill. Nevertheless, you still buy it, but now, every time you're using the product, you're reminded of your irrational decision, making the entire ordeal incredibly tiresome in turn. A type of cognitive dissonance that directly relates to the Ikea Effect is 'effort justification.' Effort justification implies that if we've put in a considerable amount of time and effort into something, even if it may not have led to fruition, we're inclined to justify our efforts.

## In Correlation to Endowment Effect




The Ikea effect is very similar to the *endowment effect*. The endowment effect also states that people value items that belong to them higher than what their market price or value might be. Proposed by Tversky and Kahneman, the endowment effect finds itself rooted in the basics of human psychology. In an experiment conducted by economists, people were asked to choose between two jobs—A and B. The people were asked if they'd switch jobs if the other was better in one aspect but better than the other. Most people, including me probably, stayed in the old job. Despite perks, the possibility of loss can also be heightened with a change in the job. Loss aversion is one critical aspect in these terms.

## Losses and the compelling need to avert

Humans are very stubborn creatures, nothing about this is set in stone, but if they're used to a particular way of functionality, they prefer to stick around with that. The mental exhaustion from the change in ways can be disheartening. Loss aversion is rooted in the belief that we, as humans, experience losses more severely than gains. While there's no fixed metric, I think we'd all agree that we remember every loss of ours and find our stride from the motivation that those losses give us.

What's interesting to note is that humans are more willing to take risks to avoid losses. As contradicting as that sounds, mull on it for a minute or two. A lot of times, crime and dishonesty are born out of the need to avert losses and get momentary moments of happiness. Similarly, in terms of products or for that matter, investing in stocks, if we see a stock in red(implying it's not doing well on that particular day), we'd still hold or even possibly invest more in it, in hopes that when it goes green, the returns will be extraordinary.

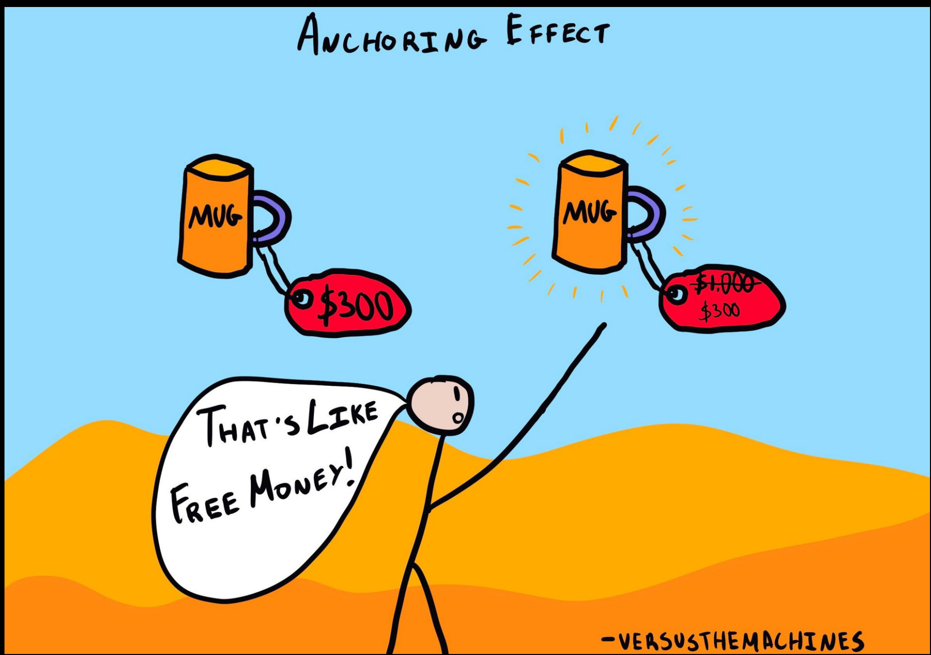
## Behavioural Biases and their everlasting presence:

Behavioural biases, oftentimes transpire as bad decisions. They're certain beliefs, superstitions, or perhaps inclinations that tend to tip us over to the negative side, and we end up making decisions in haste. Markets don't function in a bubble, their causality is heavily dependent on the public, and perhaps the decisions big corporations make. For example, one stock or maybe a cryptocurrency may not be doing exquisitely well, but if a well-known public figure were to endorse these, there's bound to be a rise in valuation or perhaps the pricing.

*Anchoring Effect*

Nothing functions within itself, and these biases are the reason the markets function the way they do. One of these biases includes the Anchoring Effect. The anchoring effect is placed under a subpart of behavioural biases called cognitive biases. Humans are deceivable creatures. Quite frequently, we tend to believe hearsay, without verifying or understanding the repercussions of blind trust. Anchoring is similar to mindless believing, we 'anchor' our opinions on the first piece of information and use that as holy scripture. Once an anchor has been set, every subsequent decision we make relies on our sole ability to fathom and trust one piece of information.

For example, assume that you wanted to begin investing in cryptocurrency. You see that the market is currently not doing exceptionally well, so you decide to buy some and build your portfolio. But, a close friend of yours tells you that the government plans to regulate cryptocurrency, without any sources to support their claims. You, as a nascent investor, would probably end up believing your friend. Moreover, they may even be right but there's no surety and they can be wrong as well. This, as a matter of fact, is a testament to humans not being able to compartmentalize different portions of their life, we'd let our personal relations get in the way of financial decisions and while that's not a bad thing, some of it may be detrimental to us because people are often set in their ways and tend to dissuade their close ones if they seem to tread the path that they once tried and failed on.




*Bandwagon Effect*

Another bias that we subconsciously tend to resort to is the Bandwagon Effect. Herd mentality has been around since times immemorial. Julius Caesar's story hinted at the excessive, and rather destructive use of mobs and how they act as the biggest hindrance to decision making. Cassius and his tactical manipulation led to Brutus betraying his one true friend and spawned a whole series of events that may or may not have been detrimental to the functionalities(won't give spoilers). Coming back to the point, herd mentality is prevalent even today, maybe in a different sense, but it exists. When our favourite celebrity gives out a very absurd opinion, we're more inclined to believe that rather than fact check or rethink its absurdity.

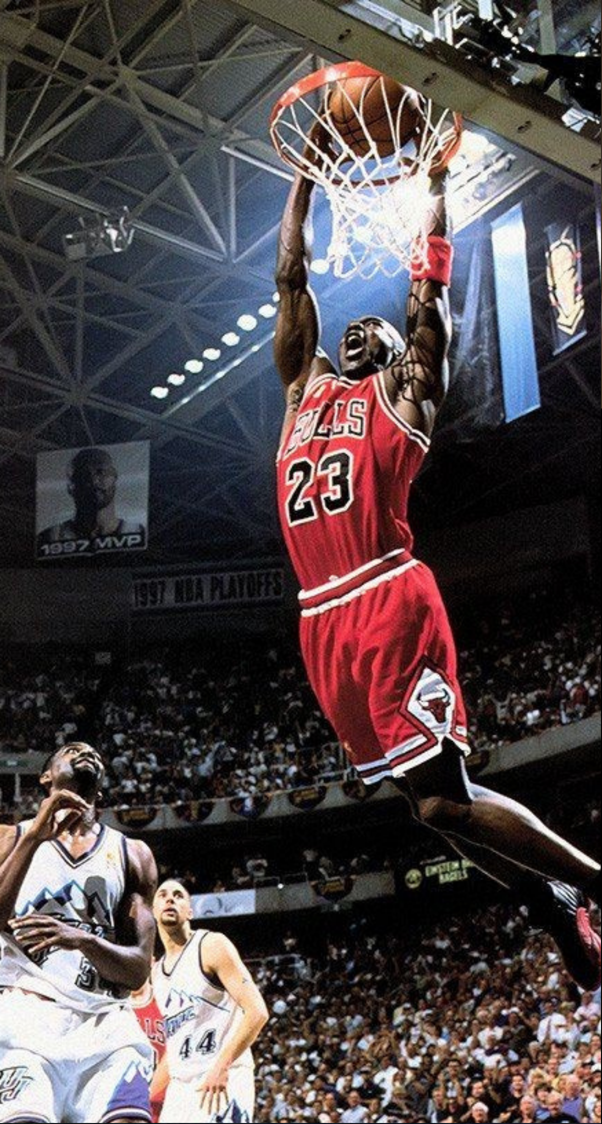
Celebrities have huge platforms, and more often than not, we place them on pedestals even we wouldn't be able to stand on. So, when they're given the reins, the manipulation is also not that difficult.

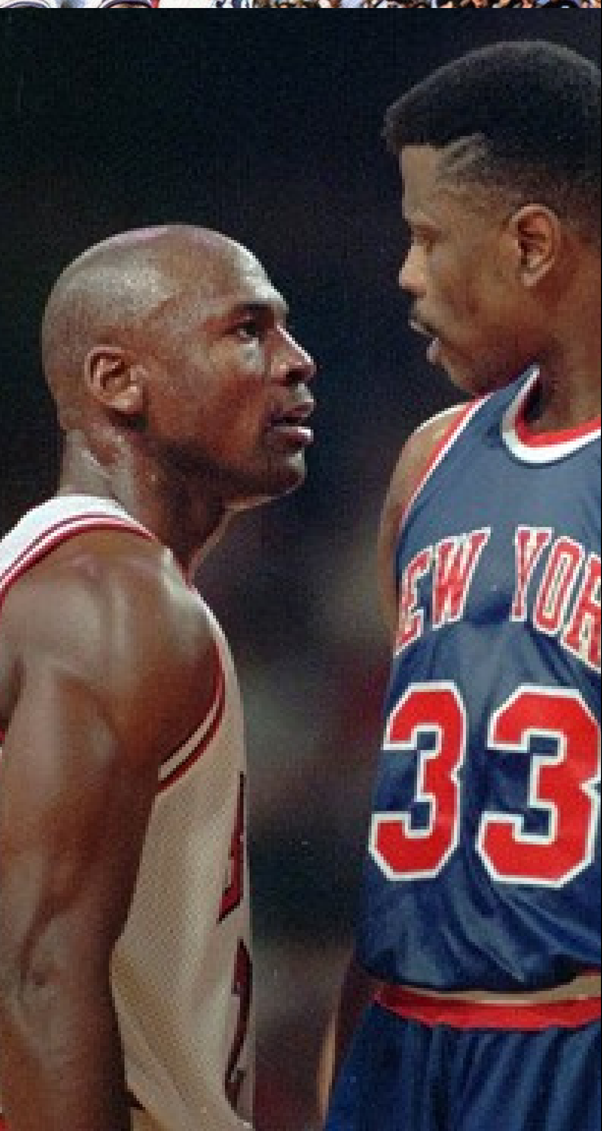
The bandwagon effect is something similar to this, we tend to believe what the crowd believes in. Even if it might be an invalid opinion, we still tend to go along because there's always comfort in a herd of people. Even if the opinion is invalid, there still exists the reassurance that you were wrong along with hoards of people. Robert Frost's 'The Road Not Taken' is one profound poem about wanting to swerve from the normal, and we should echo more of those sentiments.
One prime example of the bandwagon effect has to be stock investing. People tend to follow the crowd without realizing the need to spend money wisely, investing in poorly performing stocks because the crowd continues to rave about them. Moreover, bull markets are a hotspot for mob mentality behaviour. The recent boom of IPOs is a testament to the impending presence of herd mentality and the detriment they bring along with them(case in point: Paytm).

## ***Conclusion***

Behavioural Economics finds digressions into philosophy and various fields of psychology. The field continues to grow like a tree, extending its roots in all directions to absorb as much as it can. There's no beginning to the field and there'll never be an end because as long humans continue to live, they'll follow set behaviour patterns that will find applications in this vast and undying field. Not only has BE opened doors to a more diverse research diaspora, but it also makes our behaviour more tangible, and helps us understand our shortcomings like nothing else. Wishful spending may be a thing, but so is budgeting. In the same way, Behavioural economics exists because traditional economics exists, salient market behaviour would have never been known to us had we not had training wheels in the form of traditional economics.

# Flying In The Air




## Introduction

The dawn of modern basketball is Michael Jordan. He changed how the world looked at American basketball and the game's relationship with fashion and culture globally. Although the phenomenon of sneaker culture which Jordan brought with himself was huge, it was only an offshoot of his professional career. This proves how awe-inspiring his career was, and the shoes he played in, became the world renowned Air Jordans.
All this came about as a by-product of Michael's dedication to win and his passion for the game, which took him from being the NBA Rookie of the Year to being the principal player of the Olympic Dream Team, America's basketball team for the 1992 Olympics.

## Birth of a Legend

In the NBA Draft of 1984, a sensational kid who led his college team of North Carolina, was selected by the Chicago Bulls. From the moment he came into the franchise, he was determined to write a story of his greatness and turn the Chicago Bulls into a dynasty of its own, like the Lakers or the Celtics.

Up until this time, the world had not seen Jordan play on a stage as big as the NBA. Between the Draft and the start of the season was the Olympics, in which the USA played Michael Jordan in the national team. In the tournament, the world witnessed the prowess of Michael after which he became the most popular amatuer basketball player.

In the third game of the season against Milwaukee Bucks, Micahel led a dejected losing side to a win over the Bucks. All eyes were in awe of this wonderkid. Chicago, which was considered a dying franchise at the time, found a hero in Michael and the city immediately rallied to support the team and him. Game after game, Michael wrote poetry by playing the way he did. Coronation as the NBA Rookie of the Year 1984-85 was a fitting tribute to the man who touched the hearts of people in Chicago and the whole United States.

## Breaking the old AJs

March 8, 1998 : New York Knicks V Chicago Bulls
Michael walked into the locker room to get ready for his game against the Knicks, which could also be his last game at Madison Square Garden, his favourite place to play. He walked out of the mid-court tunnel under the bright lights of the Garden, wearing the old pair of Jordans which was the first shoe he wore at the MSG.
During his time on the court, Michael put on an artistic masterclass, scoring 42 points and leading the Bulls to victory. As he walked off the court, he made it clear that he departed the Madison Square Garden just as he entered, as the Star of The Court.

Moreover, while Jordan made it look easy, the reality was not so alluring. The pair that Jordan wore was 13 years old and over this period his shoe size had grown from a 12.5 to 13.5 and by the time the game ended his sock was soaked in blood. Regardless of everything, the man played some beautiful basketball on the court, reestablishing his prowess. Wearing an iconic shoe like that, at the biggest stage of the game was a statement motivated by Michael's passion and his love for basketball and the shoes.

# Nike X Jordan

During his rookie year in 1984, Michael was introduced to ProServ which was a sports management firm. At the time they managed magnanimous clients who were tennis players like Stan Smith, Jimmy Conors and Arthur Ashe. David Falk from the firm met Jordan and his family and decided to represent him. The frim thought of an experiment—They wanted to take a team sports player and make him as big as an athlete who played an individual sport. David Falk took Michael under his wing and wanted him to sign a deal with Converse but it did not come through as the brand already had the likes of Magic Johnson, Larry Bird, Bernard King and the company could not put a rookie with players of such status. The company that Michael was keen on signing with, was Adidas, whose shoes he loved but since Adidas was dysfunctional in its finances and although they wanted to sign the deal, financial incapabilities prevented them from starting a partnership with Jordan.

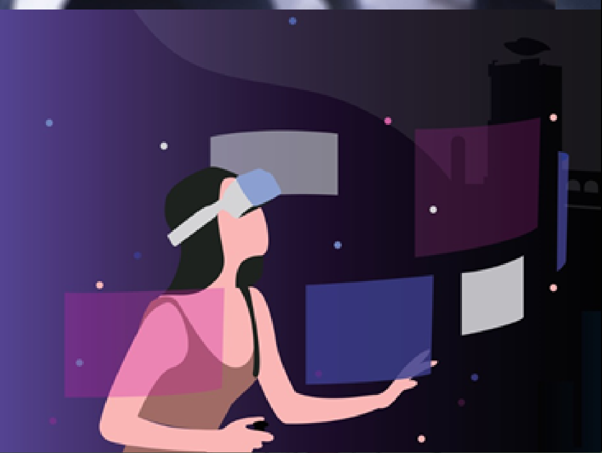
*Jordan with agent and manager David Falk*

*Nike paid Michael Jordan's $5,000-a-game fine for wearing the red, black and white sneakers. It's the only Air Jordan to have Nike's swoosh logo.*

NBA regulations did not allow shoes of any colour to be worn on the court apart from white. But, Peter Moore, the designer at Nike banked on the fact that the kit of Chicago Bulls was red, white and black and designed the shoe on the same colour palette for which the NBA fined MJ $5000 for every appearance but to make the shoe noticeable, Nike took these shots. The brand wanted to achieve a sale of $3 million worth of Jordans at the end of the fourth year but, by the end of first year after the deal, Nike sold $126 million worth of Air Jordans. Jordans kept changing with the times, with innovative styles and soon enough, the company who made track and running shoes became part of counter-culture making the shoe a must have. Everyone wanted to feel what it was like to be in the shoes of Michael Jordan. All of a sudden sneakers became the ultimate fashion phenomenon. From being seen on theatre screens to streets, Jordans were everywhere. Everyone said, “It must be the shoes,” but Michael said that it was everything he did on the court which has given the shoes that kind of a stature.

From this deal alone he has earned a whopping sum of $1.3 billion till date and Nike has become the most recognisable sneaker brand on the planet. This shows how MJ, the rookie on court and Nike, a rookie in the game of basketball, together partnered to impact the game, fashion, culture and business.
Michael Jordan and his Air Jordans will forever remain an icon for the world.


Madison Square Garden



# Metaverse: Facebook's Rebranding Unraveled

## Introduction

For a few months now, Facebook has been weathering the storm from regulators and governments alike. However, on 28th October, Zuckerberg shook the pillars of the tech world as he announced Facebook's rebrand to Meta.

Meta hints at the inception of the highly anticipated Metaverse, an evolution of the internet that goes above and beyond anything we've ever witnessed, and promises to create virtual 3-D environments in which users can interact. There is some fear that the rebranding may be an elaborate hoax to derail the push for the regulation of Facebook.

## What is the Metaverse?

Understanding the metaverse is far more complicated than it may seem. There are a myriad of perceptions about the same and its constituents. However, one common conclusion is that this is the next step in the evolution of the internet—a shared experience that will be heightened using Virtual Reality and Augmented Reality.

Shaan Puri, the ex-CEO of Bebo, shared a mind-boggling theory regarding the metaverse. He claimed that the metaverse would be the moment in time when the human race achieves a digital form more important than its physical form. Puri elaborates by delving into our past—our lives in the past were primarily in the physical world. Once, the metaverse is achieved, the majority of our lives will be in the digital world. He believes the transition will be gradual and is confident of its occurrence.

On the other hand, the primary idea behind the metaverse is to create a consistent digital presence that allows users to interact with one another through more immersive experiences. Proponents of the metaverse envision a future in which users work, play, and network, entirely in the metaverse. While it may seem like an idea plucked from a science fiction movie(yes, I'm talking about Ready Player One), the metaverse is inching closer to reality as we speak.

## Meta-Now

Over the past year, the noise around the term ‘metaverse’ has only gotten louder. In the current scenario, we seem to be getting glimpses of a potential metaverse forming. Epic Games’ Fortnite in particular, stands out as a pioneer—It laid down a marker when it hosted a virtual concert by Travis Scott within the game, that more than 12 million players attended.

Aside from the behemoth that is Fortnite, numerous firms are vying to enter the heated conversation for instance, Nike partnered with Roblox to create its virtual world labelled NikeLand, the mobile-game sensation Pokemon GO is planning a metaverse and similarly, Microsoft is creating its metaverse using its Teams platform.

> **"THE BLEAKEST VERSION OF WHAT FACEBOOK MIGHT BECOME IN THE NEXT FEW YEARS, IF CURRENT TRENDS HOLD — A BOOMER-DOMINATED SLUDGE PIT FILLED WITH CUTE ANIMAL VIDEOS AND HYPER PARTISAN GARBAGE"**
> **- KEVIN ROOSE FOR THE NEW YORK TIMES**

The above quote from Kevin Roose sums up Facebook's current predicament, and no one realises this more than Mark Zuckerberg. His company is facing a severe demographic crisis. The rebrand to Meta may appeal to a younger audience—a change Facebook desperately needs if it wants to keep position among consumers. It also shifts the conversation away from the plethora of problems Facebook propagates—teenage depression, mental health issues, insurrection, fake news and more. Meta uses adroit marketing to distance itself from the series of controversies Facebook has been a part of. A majority of employees refer to this as the ‘brand tax’—this refers to the struggles they face to gain the trust of its consumers due to Facebook’s constantly battered reputation

The heavy reliance of the newer generation on the online framework for work and leisure has made them vulnerable to the ploys of the social media conglomerate. This endangers young users, allowing the interface to groom a new generation of consumers, making them more product-ready. However, regulating this sprawling virtual environment is no simple task. Perhaps the most significant concern is the vast amalgamation of data—how do you ensure a certain degree of data privacy in the metaverse?

Even in this scenario, the convenient timing of the rebranding has raised plenty of eyebrows amongst the general public. As discussed in October's issue, Facebook is facing an uphill battle against governments alike—they believe the social network's increasing influence must be regulated before it's too late. This begs the question: was the rebranding a diversion of sorts? The EU's DMA (Digital Market Act) and DSA (Digital Services Act) democratise the content provider and consumer's interface, providing structure and redefining these large digital platforms as gatekeepers rather than content providers.

The fact that Zuckerberg claimed the metaverse is 5-10 years away only fuels the debate. Regardless, it seems this tactic is unlikely to work for too long—the conversation has already begun over how to potentially regulate the metaverse as a whole, along with Meta. Trepidation seems to be brewing of a dystopian future where the human race has shed its physical identity for a completely digital one.

*Travis Scott's virtual concert in Fortnite*

# The Future

One opinion that sometimes goes unnoticed is that the ‘metaverse’ is a label of sorts. If you look around, you’ll realise how obvious the transition into the digital space is. Zuckerberg may have said the metaverse is five to ten years away, but the truth is, it’s already here in some capacity.

On the other hand, it may be that a full-fledged metaverse never materialises as there are the practical aspects of it to consider. You are unlikely to strap on your VR headset and enter the metaverse at any random time of day. It will also be a tremendous achievement if all the players in the metaverse unite without disagreements amongst themselves. You see, the beauty of it lies in the incredible collaborative environment it provides. If companies in it begin monopolising, the metaverse we envision will never come into fruition.

A harrowing thought which comes to my mind, if the metaverse indeed materialises is that we won’t realise when we’re in the metaverse. As more and more facets of our lives become digital, the metaverse will become a binding presence around us. The lines between physical and digital will continue to blur and soon enough, instead of eagerly awaiting a metaverse, we may find ourselves desperately trying to find a way out.