



What You Will Read in This Issue:

Consumer Behavior Theory

6



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EDITOR'S NOTE



Abolfazl Joorabchi

We are delighted to present the sixth issue of our journal in English. In this edition, we aim to provide educational and internationally accessible content by presenting economic theories and concepts in English. Our goal is to expand the readership of “Navasan” to both international students and domestic learners interested in specialized economic English.

We have chosen to begin this journey with the Theory of Consumer Behavior, a fundamental concept in modern economic thought. Understanding how consumers make decisions, allocate resources, and respond to changes in prices and income is crucial for both academic research and practical economic policy. This issue provides a comprehensive and insightful exploration of these essential concepts.

The Theory of Consumer Behavior offers a structured framework for analyzing individual decision-making processes. By examining preferences, constraints, and trade-offs, economists can better predict consumer responses to market signals. Key tools in this analysis include the concepts of utility, indifference curves, and the marginal rate of substitution, which allow us to model and quantify the satisfaction derived from different combinations of goods and services. Additionally, the budget line provides a practical illustration of the limitations consumers face when allocating resources, highlighting the delicate balance between desire and affordability.

In this issue, we have aimed to provide a detailed yet accessible discussion of these topics, connecting theoretical foundations with real-world applications. We invite readers to reflect on the economic rationality that shapes consumer choices and to consider how these insights can inform business strategy, policy-making, and everyday financial planning.

Finally, we extend our sincere gratitude to all contributors whose research, analysis, and creativity have made this issue possible. Their work enriches our journal and offers valuable perspectives on the dynamic and evolving field of consumer economics. We hope this issue serves as both an informative resource and a source of inspiration for further study and discussion.

Sincerely,
Abolfazl Joorabchi
Editor-in-Chief

WHAT IS THE THEORY OF CONSUMER BEHAVIOR?



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What is the theory of consumer behavior?

Consumer theory is a key element of microeconomics that examines how people make purchasing decisions within their budget limits and preferences. By analyzing these choices, it predicts spending behaviors that significantly affect GDP, influence corporate demand forecasts, and shape economic policies. Understanding this theory can provide valuable insights into the economic “invisible hand” that guides overall market dynamics.

Key assumptions of consumer theory include rational decision-making, utility maximization, non-satiation, and decreasing marginal utility.

The basic tool for analyzing this theory is the concept of marginal utility, which refers to the change in consumer satisfaction due to a small change in the quantity of a good consumed.

Different theories of consumer behavior:

- **Schiffman and Kanok's theory (2007):**

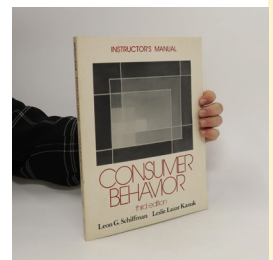
Schiffman and Kanok (2007) believe that consumer behavior studies examine how individuals decide how to spend their available resources, including time, money, and effort, to purchase consumer products.

- **Arnold, Price, and Zinkan Theory:**

Consumer behavior studies how individuals and groups acquire, use, and dispose of goods, services, ideas, and experiences.

- **Solomon's theory:**

According to Solomon, consumer behavior means the study of the processes by which individuals or groups select, purchase, use, and



dispose of goods, services, ideas, and experiences to satisfy their needs and wants.

The rest of the theories are within the same limits. In general, all theories focus on action and reaction to needs and income.

Understanding the Factors Driving Consumer Choices:

Individuals can choose from different goods and services, and consumer theory aims to predict buying habits through three basic assumptions about behavior:

- **Utility maximization** :Individuals are said to make calculated decisions when shopping, purchasing products that bring them the greatest benefit, otherwise known in economic terms as a maximum utility.
- **Non-satiation** :People are seldom satisfied with one trip to the shops and always want to consume more.
- **Decreasing marginal utility** :Consumers lose satisfaction with a product the more they consume it.

Factors influencing consumer behavior theory:

Cultural Factors:

Culture has a strong influence on purchasing behavior and includes the beliefs, values, and customs shared within a society. These traits are passed down from generation to generation and shape individuals' purchasing habits. In addition to culture, subcultures are also influential, such as racial, national, or religious groups that influence consumer behavior.

Social factors:

Family or friends play an important role in purchasing decisions. Consumers often use the opinions of their social groups to choose products. Also, social situations and different roles in life, such as a person's role in the family or at work, influence product choices.

Individual factors:

Personal characteristics such as age, occupation, economic circumstances, lifestyle, and personality influence purchasing behavior. People have different needs and preferences at different stages of their life cycle. In addition, occupation and disposable income also affect purchasing power and the type of products they choose.

Psychological Factors:

Psychological factors include motivations, perceptions, learning, and beliefs that guide consumers in purchasing products. Motivations are the driving forces that compel individuals to take action, while individuals' perceptions and past experiences have a strong influence on their purchasing decisions. Learning from prior experiences and beliefs also influence product choices.

Points of this theory:

- Understanding consumer behavior is the basis for many decisions made by business managers. The goal of every company is to produce a product that customers value and will pay for.
- This theory assumes that consumers behave rationally and that their purchasing decisions are completely rational. However, psychologists who have studied consumer behavior believe that humans do not necessarily make rational and logical decisions. For example, our purchases are sometimes sudden, when we have no intention of buying but a dress in the window catches our eye and we buy it immediately.
- A change in consumer equilibrium can result from two main factors: the first is a change in an individual's income and the second is a change in the price of one of the goods.

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- Microeconomics book written by Dr.Mohsen Nazari.
- Website Investopedia: [investopedia.com](https://www.investopedia.com)
- Website Abasaltian: [abasaltian.com](https://www.abasaltian.com)
- Website Amoozesh Mofid: learning.emoeid.com

WHAT ARE INDIFFERENCE CURVES?



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In microeconomic theory, an indifference curve is a graph that shows various combinations of two goods between which a consumer is indifferent. That is to say, it is the locus of combinations of two goods that yield the same level of utility. At any point on this curve, the consumer has no preference for one combination over the others. Furthermore, at every point on the curve, the level of utility (satisfaction) is constant.

At the heart of economics, where human decision-making is scrutinized under the lens of rationality and constraint, lies a beautiful and abstract concept that attempts to map our inner desires. This concept is called the indifference curve. Imagine standing in a world of endless choices; among different combinations of goods, each promising a degree of satisfaction and utility. How can all these possibilities be structured? How can one's invisible taste and preference be made visible and analyzable?

Indifference curves are a poetic answer to these questions. They function like the lines on a topographic map, but instead of depicting elevation, they illustrate levels of equal satisfaction and happiness. Each point on this map represents a specific combination of two goods (for example, books and coffee, or travel and savings). The beauty lies in the fact that if you move along one of these lines, your overall feeling of satisfaction remains constant. It is as if the economist, by drawing these curves, is telling us: "See, from your perspective, this combination is no different from that one; both make you equally happy," hence the name "indifference."

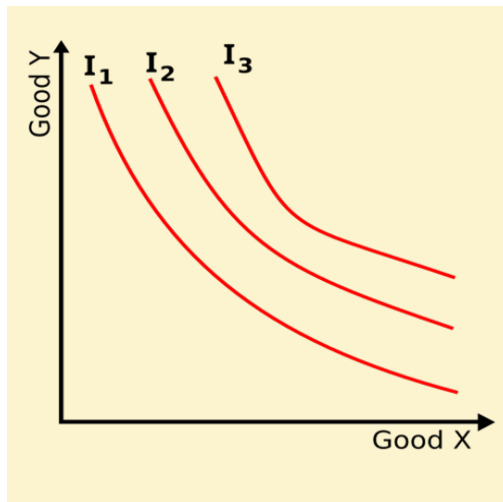
The origin of this idea traces back to the writings of economists who sought to better understand consumer behavior without relying solely on numerical and quantitative analysis. They were searching for a language to express subjective preferences without the need to directly measure "utility." These curves are, in fact, a bridge between the qualitative world of our personal inclinations and the quantitative world of the budget constraints we face.

The application of these curves extends far beyond analyzing a consumption basket of goods. They are used to understand the choice between leisure and work, between consumption today and saving for tomorrow, and even in international trade to show a country's preferences regarding its mix of exports and imports. They are a fundamental tool for modeling any scenario in which a decision-maker is faced with various combinations of options, and a level of utility can be conceived for each combination.

As can be seen in the graph, the indifference curves are convex toward the origin (zero, zero). This characteristic stems from an important economic principle called the "Diminishing Marginal Rate of Substitution (MRS)." MRS refers to the amount of good Y that a consumer is willing to give up to obtain one additional unit of good X while maintaining the same level of utility.

As observed in the graph, curve I₃ is higher than I₂, and I₂ is higher than I₁. This means that any point on I₃ provides a higher level of utility compared to any point on I₂, and similarly, I₂ provides higher utility than I₁. This makes perfect sense; If a consumer can access combinations of goods that include more of both good X and good Y, they will naturally achieve greater satisfaction.

The map of indifference curves is a fundamental tool in analyzing consumer behavior in microeconomics. This simple yet powerful graph allows us to visually represent the subjective preferences of individuals in an objective and analyzable manner. By understanding the properties of indifference curves and their application alongside the budget constraint, economists can develop models to predict and explain consumer choices in response to changes in prices, incomes, and preferences. This understanding is crucial not only for economics students but also for policymakers and businesses, enabling them to make more informed decisions regarding production, marketing, and public welfare.



WHAT ARE THE CHARACTERISTICS OF INDIFFERENCE CURVES?



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Features of Indifference Curves:

The analysis of standard indifference curves is conducted on a simple two-dimensional graph. Each axis represents a type of economic good.

Furthermore, each type of commodity bundle on an indifference curve has the same utility for the consumer.

For example, an individual might be indifferent between having two novels and one sports magazines.

Thus, both combinations are points on an indifference curve for this individual.

There are indifference curves shown graphically side-by-side is called an “indifference map”.

The features of indifference curves can be listed as follows:

• Non-Intersection of Indifference Curves:

No two indifference curves can intersect each other, as such a situation contradicts the logical principle of preference consistency and indicates that consumers do not exhibit consistent behavior in ranking product combinations.

To explain why indifference curves do not intersect each other, we use proof by contradiction:

Assume there are two indifference curves, “IC1” and “IC2”, that intersect at a point called “a”, and points “a”, “b” and “c” represent three different combinations (with combinations of X and Y).

Combinations “c” must be preferred over “b” because it includes more of both goods.

Points “c” and “a” are equivalent because they lie on the same indifference curve.

Likewise, the consumer is indifferent between “a” and “b”.

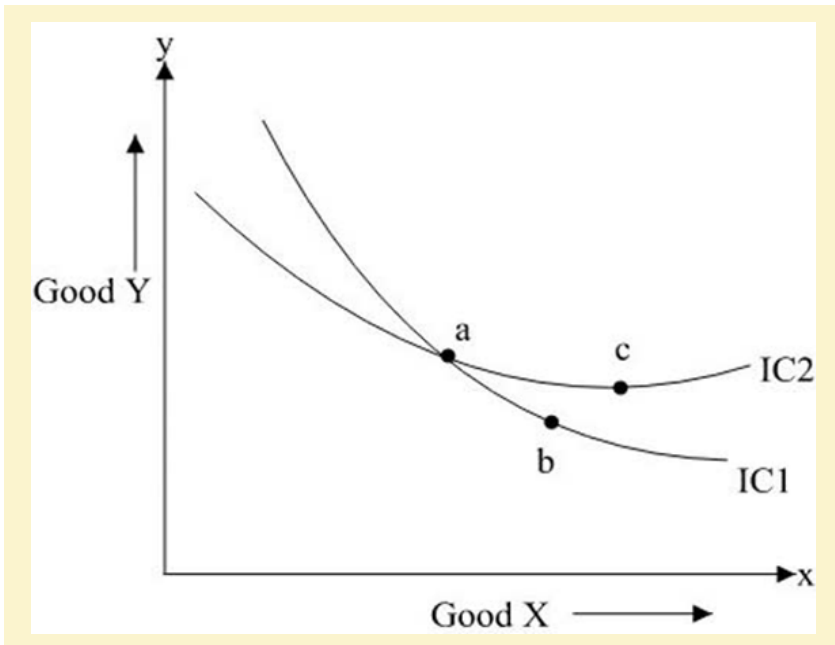
We must remember that if a consumer is indifferent between A and

B, and also indifferent between B and C, then they must also be indifferent between A and C.

Also, “c” and “a” are equivalent, just as “a” and “b” are equivalent, so “c” must also be equivalent to “b”.

But as we previously mentioned, since “c” includes more of both goods, it is preferred over “b”.

Therefore, the initial assumption that curves intersect is incorrect, and indifference curves never intersect each other.



- **Higher Utility on Higher Curves:**

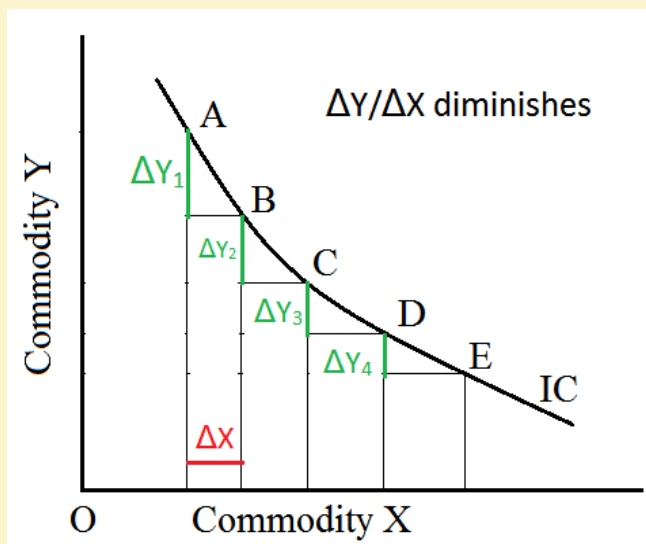
The higher an indifference curve is on the map, the greater the level of utility it indicates, as the consumer has more combinations of goods available.

- **Convexity to the Origin:**

Indifference curves are typically convex, indicating a diminishing marginal rate of substitution (MRS) between the two goods.

In other words, as consumption of one good increases, the consumer's willingness to substitute it for the other good decreases.

The convexity of indifference curves does not stem from the consumer's ability to rank combinations continuously; rather, this feature arises from empirical observations that suggest consumers value va



riety and consume diverse quantities of goods.

- **Downward slope:**

These curves are always downward sloping because the consumer prefers to have a larger quantity of one good, and to maintain the same utility, the quantity of the other good must be reduced.

While an upward-sloping indifference curve would imply that a consumer is indifferent between two combinations of goods where one includes larger amounts of both goods.

The fact that a positive amount of one good must be added to a combination to compensate for the decrease in the other good (if the consumer is to remain at the same level of satisfaction) indicates the negative slope of indifference curves.

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- Website blog.faradars.org
- Website moinsl.ir

WHAT IS THE MARGINAL RATE OF SUBSTITUTION?

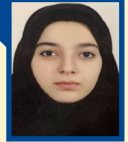


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Marginal Rate of Substitution in Economics: Concept, Applications, Advantages, and Limitations

The Marginal Rate of Substitution (MRS) is a fundamental concept in microeconomics that analyzes consumer behavior in choosing between two goods. It represents the rate at which a consumer is willing to give up one good to gain an additional unit of another good, while keeping their level of satisfaction or utility constant. This article examines the definition, history, applications, advantages, and limitations of this concept.

Definition of Marginal Rate of Substitution:

The Marginal Rate of Substitution is mathematically defined as the ratio of the marginal utilities of two goods. If we have two goods named X and Y, the MRS is calculated as follows:

$$MRS = -\Delta Y / \Delta X = MU_X / MU_Y$$

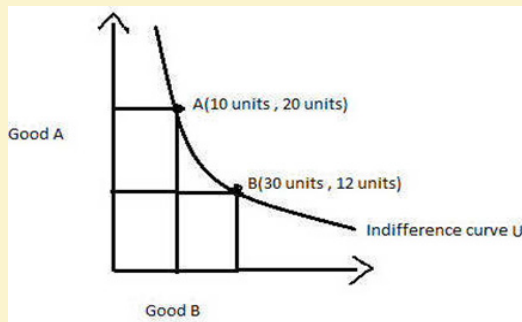
In this formula:

MU_X : marginal utility of good X (the increase in utility from consuming one additional unit of X).

MU_Y : marginal utility of good Y (the increase in utility from consuming one additional unit of Y).

$\Delta Y / \Delta X$: change in quantity of good Y relative to change in quantity of good X.

The negative sign indicates that to increase consumption of one good, consumption of the other must be reduced to keep utility constant. The MRS is usually analyzed using indifference curves, where the slope of these curves equals the MRS.



History and Key Contributors:

The concept of the Marginal Rate of Substitution has roots in neo-classical economic theory, especially in the development of utility theory and indifference curves in the late 19th and early 20th centuries. Economists who played key roles in developing this concept include:

Vilfredo Pareto (1848-1923): He laid the foundations for MRS analysis by introducing indifference curves. Pareto emphasized comparing consumer preferences (ordinal theory) rather than measuring utility directly (cardinal theory).

Francis Edgeworth (1845-1926): Through the introduction of the “Edgeworth box”, he developed the concept of equilibrium in exchanges between two individuals or goods, aiding MRS analysis.

John Hicks (1904-1989): In his book *Value and Capital* (1939), Hicks used the ordinal utility theory to introduce MRS as a key tool for analyzing consumer behavior.

These economists established MRS as a powerful analytical tool for understanding consumer behavior by avoiding the need for direct utility measurement.

Importance of MRS in Economics:

MRS plays a central role in consumer behavior analysis and economic decision-making. It helps economists to:

Understand consumer preferences: MRS indicates how consumers prioritize between goods. For example, a high MRS between coffee and tea means the consumer values coffee more.

Identify the consumer equilibrium point: At equilibrium, MRS equals the ratio of the prices of the two goods. This means consumers allocate resources to maximize their utility.

Analyze the impact of economic policies: Policymakers use MRS to predict how price changes, taxes, or subsidies affect consumer behavior.

Practical Applications of MRS:

Market analysis: MRS helps firms predict consumer demand for different products and adjust pricing strategies.

Public policy: Governments use MRS to analyze effects of policies like food subsidies or taxes on luxury goods.

Design of substitute products: Companies use insight from MRS to create products better aligned with consumer preferences.

International trade analysis: MRS is applied in studying trade patterns and resource allocation between countries.

Advantages of Using MRS:

Conceptual simplicity: MRS provides an intuitive and straightforward tool to analyze consumer preferences without direct utility measurement.

Flexibility: It is applicable in diverse analyses, from individual behavior to macroeconomic policies.

Compatibility with modern theories: MRS aligns with ordinal utility theory and avoids complex assumptions about utility measurement.

Use in mathematical modeling: MRS is pivotal in microeconomic optimization models, such as consumer utility maximization.

Limitations of MRS:

Simplifying assumption: MRS assumes consumers choose between only two goods, while in reality, consumers face a complex array of goods and services.

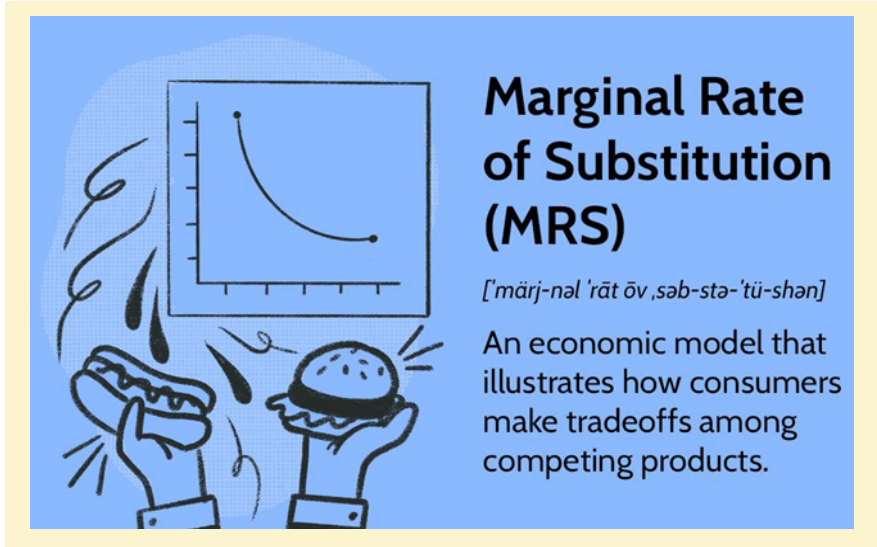
Dependence on indifference curves: MRS analysis relies on indifference curves, which may be inaccurate due to complexity in consumer preferences.

Ignoring non-economic factors: MRS considers only economic utility and overlooks habits, culture, or emotions.

Measurement challenges: Although MRS doesn't require direct utility measurement, calculating marginal utilities precisely can be difficult in practice.

Practical Example:

Suppose a consumer chooses between apples (X) and oranges (Y). If the consumer is willing to give up 3 oranges for 1 extra apple, the MRS equals 3. If an apple costs 6 monetary units and an orange costs 2 monetary units, the price ratio ($P_X/P_Y=6/2=3$) equals the MRS, indicating consumer equilibrium. If the price of apples rises, the consumer may prefer to consume more oranges, a behavioral change that can be analyzed using MRS.



Source: Investopedia

Conclusion:

The Marginal Rate of Substitution is a powerful and widely used tool in microeconomics that aids the analysis of consumer behavior, resource allocation optimization, and economic policy design. Rooted in the works of economists such as Pareto, Edgeworth, and Hicks, it remains relevant in modern economic analyses due to its simplicity and flexibility. However, limitations like oversimplification and neglect of non-economic factors can sometimes challenge its application. A deeper understanding of MRS enables more precise economic decision-making at both individual and aggregate levels.

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Microeconomics: Theory and Applications by Dominick Salvatore
Marginal Rate of Substitution – Wikipedia
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WHAT IS THE BUDGET LINE?



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In microeconomics, the budget line is a fundamental concept that analyzes consumer behavior under constraints. The budget line represents all possible combinations of two goods that a consumer can purchase given their income and the prices of goods. It identifies the boundary of choices available to the consumer and shows the trade-offs they face in making consumption decisions.

Thus, in microeconomics, the budget line is considered an essential analytical tool. Economists such as Alfred Marshall and Paul Samuelson used it extensively, and classical as well as modern sources treat it as a basic model to examine consumer behavior.

The budget line shows all combinations of two goods that a consumer can buy with their given income. If an individual wants to purchase more of one good, they must reduce the quantity of the other good so that total spending remains consistent with their limited income.

Equation of the budget line:

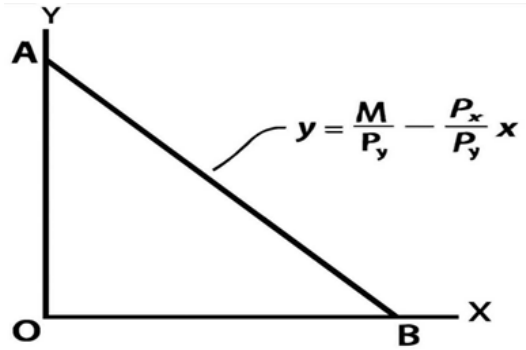
$$m = p_x \cdot x + p_y \cdot y$$

The budget line equation is obtained by equating total expenditure with income. If two goods X and Y are available with prices P_X and P_Y and consumer income is M , then the budget equation can be written as:

$$Y = \frac{M}{P_Y} - \frac{P_X}{P_Y} \cdot X$$

This equation represents a straight line. The horizontal axis usually represents good X with price P_X , and the vertical axis represents good Y with price P_Y .

All points on the budget line correspond to combinations where the entire income is spent. The slope of the budget line is negative, because an increase in the consumption of one good requires a decrease in the other good to keep total expenditure constant.



The main feature of the budget line is that its slope equals the ratio of the prices of the two goods:

$$-\frac{OA}{OB} = -\frac{\frac{m}{p_y}}{\frac{m}{p_x}} = -\frac{p_x}{p_y}.$$

This negative sign indicates the inverse relationship between the two goods: an increase in the consumption of one good is accompanied by a decrease in the consumption of the other.

Numerical example:

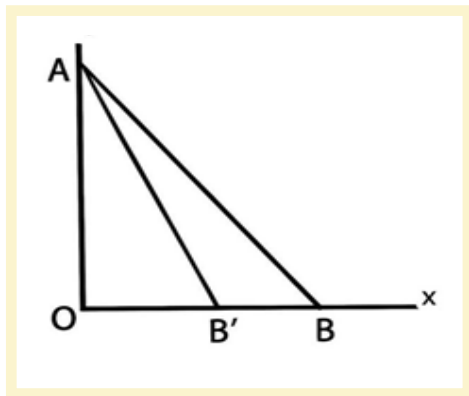
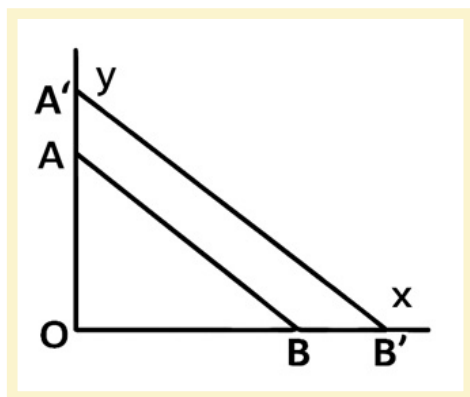
Suppose a person has a monthly budget of 2 million Tomans. The price of meat is 400,000 Tomans per kilogram and the price of chicken is 200,000 Tomans per kilogram. The consumer can either buy 10 kilograms of chicken or 5 kilograms of meat, or any combination of both, as long as total spending does not exceed 2 million Tomans.

The slope of the budget line shows how much of good Y must be sacrificed to obtain an additional unit of good X. In other words, it reflects the real financial rate of substitution between the two goods.

$$slope = -\frac{p_x}{p_y}$$

Effects of changes in income and prices:

- A change in income shifts the budget line parallel to the original one without changing its slope.



- A change in the price of one good rotates the budget line around the intercept of the other good.

For example:

- If the price of good X increases, the budget line becomes steeper and shifts inward, reducing the consumer's purchasing power for that good.
- If the price decreases, the budget line flattens and shifts outward, increasing purchasing power.

Government interventions such as subsidies, taxes, or rationing also affect the budget line:

- A subsidy lowers the effective price of a good and rotates the budget line outward.
- A tax raises the effective price and rotates it inward.
- Direct cash transfers increase income and shift the line outward in parallel.
- Rationing or coupons eliminate part of the budget line altogether.

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UTILITY MAXIMIZATION



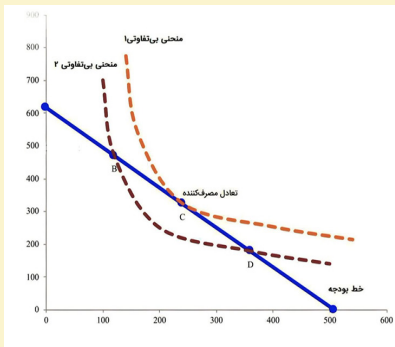
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Utility Maximization in Classical Economics

. Utility function and budget constraint: The consumer chooses a combination of goods, for example and utility function:

$$f(x,y) = U(x, y)$$



Budget condition:

$$M = py + px$$

Where P is the price of goods and M is income.

. Optimal condition The consumer: chooses a combination of goods such that the ratio of marginal utility to price is unity across all goods.

$$MU_x/P_x = MU_y/P_y$$

Explanation of the Diagram Components

Indifference Curves 1 & 2:

These curves represent different combinations of two goods that yield the same level of satisfaction for the consumer. Curve 2 represents a lower level of satisfaction compared to Curve 1.

Budget Line:

The blue line represents the consumer's budget constraint. The consumer can choose any combination of the two goods that lies on or below this line.

Consumer Equilibrium (Point C):

This is the point where the budget line is tangent to the highest attainable indifference curve. At this point, the consumer achieves the maximum utility possible given their budget.

Points B and D:

These are alternative choices lying on the budget line but yielding lower utility compared to point C.

In summary, consumer equilibrium occurs where the budget line touches an indifference curve. At this point, the consumer's utility is maximized given their budget. Any other choice (like points B or D) results in a lower utility level because they lie on a lower indifference curve.

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ECONOMIC RATIONALITY

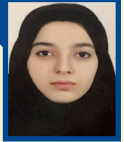


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Economic Rationality: From Classical Assumptions to Behavioral Challenges and New Perspectives

Definitions and Concept of Rationality in Economics:

Rationality in economics refers to behaviors and decision-making processes aimed at achieving utility maximization or economic benefit. “Instrumental rationality” in the neoclassical economic perspective means that individuals logically choose the best options to maximize their satisfaction or profit (Mansour & Taheri, 2013). This type of rationality is influenced by philosophies of utilitarianism and individualism and is defined within the framework of rational choice theory.

Economic Man (Homo Economicus):

In the neoclassical economic model, economic agents are considered rational and self-interested beings who make optimal decisions aiming to maximize personal benefits. This economic man has complete knowledge of the circumstances and potential outcomes of options, and his behavior is predictable. However, this model has faced serious criticisms over time; particularly, in reality, humans exhibit more complex, sometimes irrational, and even ethical behaviors (Economic Rationality under the Behavioral Economics Critique, 2024).

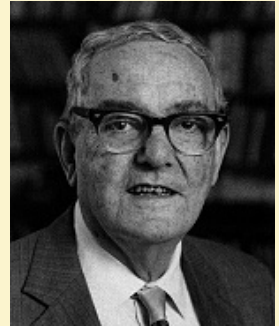
Critiques of the Perfect Rationality Assumption:

The assumption of perfect rationality has been extensively debated in economics and social sciences. Behavioral economics, integrating

psychology into economic analysis, has demonstrated that factors such as cognitive limitations, heuristics, mental biases, and social influences affect decision-making and deem neoclassical models inadequate (Jabarian, 2025). For example, people often act influenced by emotions, habits, prejudices, and cognitive errors, which cause their decisions to diverge from the perfect rationality models.

Bounded Rationality:

Herbert Simon introduced the concept of bounded rationality, positing that humans do not pursue absolute optimization but rather “satisficing” decisions — decisions that are good enough to meet their minimum needs. This concept highlights that incomplete information, limited time, and cognitive processing constraints lead people to select “sufficiently good” options instead of precise optimizations (Mansour & Taheri, 2013).



Epistemological and Islamic Approaches to Rationality:

In Islamic philosophy, rationality encompasses ethical and social dimensions beyond economic interests. It means not only increasing personal benefits but also exercising wisdom and considering societal and ethical welfare. Comprehensive rationality in Islamic economics combines wisdom, ethics, and justice to achieve sustainable coexistence in society (Perspectives on Bounded Rationality in Islamic Economics, 2021).

Alternative Theories and Challenges to Economic Rationality:

Besides the classical full rationality model, alternative theories have emerged to realistically represent human rationality's complexity and limitations. Behavioral economics, one of the most notable approaches, uses psychological findings aligned with economic realities to explain factors influencing human decision-making, complementing or critiquing neoclassical models (Critique of Rational Choice from Rival Approaches: Behavioral Economics, 2017).

Behavioral economics shows that human economic behavior deviates from perfect rationality and is influenced by cognitive constraints,

mental biases such as overconfidence, framing effects, emotional distortions, and prejudices. These biases sometimes lead to inconsistent or suboptimal decisions which neoclassical models cannot explain. Laboratory and field research provide numerous documented examples of such behaviors (Jabarian, 2025).

Bounded Rationality: Herbert Simon's Theory

A core concept in criticizing perfect rationality is bounded rationality, first introduced by Herbert Simon. Simon argued that due to informational, temporal, and cognitive processing limitations, individuals cannot achieve complete optimization. Instead, they seek “satisficing” decisions that at least meet their essential needs adequately (Simon, 1982; Mansour & Taheri, 2013). This theory provides a better explanation for human behavior by depicting agents as not fully rational and perfect, but limited in their rational capacities, making decisions under various constraints and with simpler tools.



Critiques and Weaknesses of Traditional Theories:

Despite the advantages of bounded rationality and behavioral economics, some economists and philosophers of science have raised critiques of these approaches. Some argue that behavioral economics still cannot address all social, cultural, and ethical dimensions of decision-making and sometimes relies excessively on individualistic and empirical aspects. Also, the widespread adoption of behavioral models without a coherent theoretical framework may lead to scattered results and lack of precise predictions (Critique of Rational Choice from Rival Approaches: Behavioral Economics, 2017). Development of the Definition of Rationality in Different Cultures and Beliefs:

Rationality in Islamic economics and Eastern philosophies is defined more comprehensively, incorporating ethical, religious, and social values beyond material benefits. In this framework, rationality means acting wisely and avoiding anti-competitive and unjust behaviors.

Besides cognitive limitations, this perspective considers motivational and emotional constraints and emphasizes behavior change through ethics, religion, and social commitments (Perspectives on Bounded Rationality in Islamic Economics, 2021).

Conclusion:

Rationality in economics is a multidimensional concept that has been reviewed over time from philosophical, psychological, and sociological viewpoints. The assumption of perfect and instrumental rationality prevalent in neoclassical economics, while providing a powerful framework for modeling economic behavior, does not fully align with empirical realities and human complexities.

Alternative theories such as bounded rationality and behavioral economics attempt to incorporate cognitive limitations and psychological influences to provide more realistic models. Concurrently, philosophical and religious approaches emphasize the role of values and ethics in defining rationality.

Developing our understanding of rationality will pave the way for designing better and more efficient economic policies and models that consider both human and social dimensions of economic behavior and also reflect the realities of markets and human decisions more accurately.

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Microeconomics is a branch of economics that examines the individual behavior of consumers, producers, and firms. It studies how people and companies make decisions about allocating limited resources among various needs and wants. Core concepts in microeconomics include supply and demand, market equilibrium, consumer utility, production costs, and market structures such as perfect competition and monopoly. The main goal of microeconomics is to analyze and explain how individual actions at the micro level can lead to broader outcomes in markets and society.

