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Economics

Theoretical Basis for Preparing and Making Decisions in Economic Policy

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In this work, we explain decisions made in economic policy and interpret them according to quasi-laws. It involves studying logical structure of decisions in economic policy in order to clarify the meaning of the postulate of rationality and develop recommendations regarding the problem situations. In positive theories, actions that are the result of real decisions are important. In this aspect, two levels should be taken into account: the microtheoretical level, where the subject of discussion is the behavior of subjective (individual) decision-making factors; the macro-theoretical level, where the actions of objectively existing collective factors are considered, followed by decisions. The task of microtheoretical consideration is subjective (individual) decision-making procedures. Empirical research should determine which instrument is suitable for a given purpose. The answer to this question changes over time. This is due to changes in instrumental variables. The issue of consistency is important because it informs us about the beneficial effects of the tools. At the same time, it gives us an indication of the proper division of labor between the various persons responsible for economic policy. It is possible that using the tools at our disposal will not be enough to solve the problem, as economic policy bodies and institutions are not the only ones that influence the sphere of decision-making and related issues. © *2024 Bull. Georg. Natl. Acad. Sci.*

economic policy, decision preparing and making, normative decision theory

Decision making theories primarily appeal to purely logical operations. Their basic structure is established not by experience but by conjecture. Of such a system of provisions, only those that are characterized by logical clarity are important. We must realize that, on the one hand, the lower the degree of abstraction of a decision, the more complex the problem of making it becomes. On the other hand, it leads to disappointment in our expectations regarding the available information and the possibility of practical solution to the decision-making problem. Therefore, it is necessary to be well aware of the limits within which rational economic policy measures are planned. The point is that we should always have a good idea of how small and insufficient our opportunities for action in economic policy are.

Rational Choice Theory in Economic Policy

When it comes to economic policy, rational choice theory is often used to explain the behavior of politicians, economic agents, institutions and voters. This

theory assumes that people make decisions based on their self-interest, and they choose the option that maximizes their benefits or minimizes their costs. In economic policy, this means that politicians often pursue policies that will help them to grow the economy, increase wealth, and maintain power. Overall, rational choice theory provides valuable information about human behavior and the choice of goals in economic policy. Although it is not a perfect theory and does not take into account all the factors that influence decision making, it remains an important tool for understanding political behavior.

Decision theories show how decisions should be made. The decision maker wants to follow certain principles of rationality (for example, the principle of transitivity). These theories provide formal rules and procedures for structuring and processing relevant information and thus provide support in complex decision-making situations. Descriptive theories attempt to show how people actually make decisions. Because cognitive abilities are limited, or at least often not used effectively, actual solutions are largely suboptimal compared to the solutions prescribed by formal theories. The first descriptive model of decision making under uncertainty was proposed by Edwards in 1954 [1]. The Subjective Equivalent Utility (SEU) model assumes that people try to maximize their subjective expected utility. It represents the sum of the utilities of their outcomes, weighted by the subjective probability of their occurrence. The decision maker is expected to choose the option with the highest SEU value.

Kahneman and Tversky (1979) [2] proposed prospect theory (PT) as an updated version of the SEU model. The theory adheres to the assumption that decisions are determined by the importance and likelihood of their consequences, but takes into account the behavior of the decision maker, which is not consistent with the SEU model.

One group of researchers notes that optimizing decisions in real life is the exception, not the rule. The specifics of the problem and situation is often more important than the potential consequences of the solution. For example, the behavior of managers in organizations is strictly determined by rules. Consumer decisions are often driven by affect. Decisions in ethical conflicts are usually based on core values such as honesty and "doing no harm," regardless of the consequences.

Another approach focuses on the so-called naturalistic decision making, which refers to the process in which people use their experience to make decisions in complex and dynamic environments (often under time pressure and high risk). For such situations, in 1993, Klein proposed a recognition-based decision-making model, which involves recognizing patterns of signals that lead to the search for an answer option. A sequential assessment of individual options is considered typical. The first option corresponds to the goals and situational constraints of the decision maker [3]. Models of organizational decision making describe decision making by both single and multiple actors in the organizational context of economic policy. The normative-rational (classical) model assumes that an organization follows a decision-making strategy that maximizes the value of a quantitative assessment. The usefulness of the model is limited to a small set of situations and specific characteristics (for example, goals can be described in quantitative terms).

Universities are considered to be the prototype of organizations that do not follow one particular decision-making strategy. The results reflect the varying participation of different members and groups in constantly changing tasks. All of these models differ in their ability to cope with varying degrees of uncertainty and conflicting economic interests.

Results

Using a decision rule, you can imagine how rational a particular action would be. The key is the desire to make normative claims that are empirically relevant to different situations. In this case, we

operate within the framework of normative decision theory [4,5].

Recommendations based on normative decision theory refer to a situation in which we have in advance: information about the decision field, the decision rule, and the consequences of the action. If the decision maker takes such recommendations into account, this only means his subjective rationality. Objective rationality requires that we have and use complete information about the structure of the decision field and the decision possibilities. In this case, the analytical costs associated with preparing the solution (defining the valuation function and important assumptions, preparing the solution) will not be weighed against other possible costs. But the point is that obtaining information about the decision domain also requires costs and contributes to uncertainty about the meaning of the decision. The question of how much information is needed is a pre-decision problem. It cannot be solved without a decision maker. In general, the costs of obtaining information (including the costs associated with delayed decision making) as well as the benefits of obtaining it require evaluation [6].

Subjective rationality does not mean that all actions are not subject to verification. But both self-control of rationality and its verification by other persons are possible only when the decision-making procedure is predetermined.

The consequences of rational actions in decision making are considered within the framework of normative decision theory. This is done to develop recommendations. As for descriptive theories, their goal is to identify patterns by which real decisions should be made. At the same time, the rule of discussion changes: the microtheoretical level, where the subject of behavior is the behavior of subjective (individual) decision makers and the macro-theoretical level, where the action of collective factors is discussed [7].

The task of microtheoretical discussion is subjective (individual) decision-making procedures. It indicates how well the action problem is understood and how well it is explained. From the point of view of psychologically oriented theories [8-12] economic decisions are only special cases of their application. At the same time, this is essentially the microsociological problem was shaped by economically oriented principles as micro-level theories often focus on the theoretical and empirical aspects of certain problems [11,12]. Another level of economic policy decisions is macro-theoretical in nature. When determining actions to implement collective economic policy, the macroeconomic goal comes to the fore.

When using normative decision-making theory in economic policy, the development of an econometric model requires quantitative preparation of decisions. In this case, the macroeconomic model determines the decision field of the creator of economic policy. Quantitative economic policy was developed in the mid-twentieth century based on the works [13,14]. This shows how narrow the boundaries within which decisions are made.

The ability to “distribute the impact” of instruments is useful for economic policy when the use of instruments has a certain impact on the subjects of economic policy.

Conclusion

Empirical testing should determine what purpose the instrument is suitable for. The answer to this question changes over time, since the relationship between the effects of animators (which determine the presence of favorable conditions for influencing the target) is unstable. This is due to the changes in instrumental variables. The issue of fit is important because it informs us about the beneficial effects of tools. It is important for the economic policy maker to use the instrument that is most suitable for the purpose based on the information above. Thus, the decision-making process represents a strategic interdependence between various participants.

ეკონომიკა

გადაწყვეტილების მომზადებისა და მიღების თეორიული საფუძვლები ეკონომიკურ პოლიტიკაში

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წინამდებარე ნაშრომში მოცემულია ეკონომიკურ პოლიტიკაში მიღებული გადაწყვეტილებების განმარტება კვაზი-კანონების მიხედვით. იგი მოიცავს ეკონომიკურ პოლიტიკაში გადაწყვეტილებების ლოგიკური სტრუქტურის შესწავლას რაციონალურობის პოსტულატის მნიშვნელობის გარკვევის მიზნით. პოზიტიურ თეორიებში მნიშვნელოვანია მოქმედებები, რომლებიც რეალური გადაწყვეტილებების შედეგია. ამ ასპექტში გასათვალისწინებელია ორი დონე: მიკროთეორიული დონე, რომლის განხილვის საგანია გადაწყვეტილების მიმღები სუბიექტური (ინდივიდუალური) ფაქტორების ქცევა და მაკროთეორიული დონე, სადაც განიხილება ობიექტურად არსებული კოლექტიური ფაქტორების მოქმედებები, რასაც მოჰყვება გადაწყვეტილებები. მიკროთეორიული განხილვის ამოცანაა გადაწყვეტილების მიღების სუბიექტური (ინდივიდუალური) პროცედურები. ემპირიულმა კვლევამ უნდა განსაზღვროს, რომელი ინსტრუმენტი რომელი მიზნისთვის არის შესაფერისი. ამ კითხვაზე პასუხი დროთა განმავლობაში იცვლება. ეს გამოწვეულია ინსტრუმენტული ცვლადების ცვალებადობით. თანმიმდევრულობის საკითხი მნიშვნელოვანია, რადგან გვამცნობს ინსტრუმენტების სასარგებლო ეფექტების შესახებ. ამავდროულად, ის გვაძლევს მინიშნებას ეკონომიკურ პოლიტიკაზე პასუხისმგებელ სხვადასხვა პირს შორის შრომის სწორად განაწილების შესახებ. შესაძლებელია, რომ ჩვენს ხელთ არსებული ინსტრუმენტების გამოყენება არ იყოს საკმარისი პრობლემის გადასაჭრელად, რადგან ეკონომიკური პოლიტიკის ორგანოები და ინსტიტუტები არ არიან ერთადერთი, ვინც გავლენას ახდენს გადაწყვეტილების მიღების სფეროზე და მასთან დაკავშირებულ საკითხებზე.

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