



**ORIGINAL RESEARCH PAPER**

**Economics**

**RELATION BETWEEN ECONOMICS AND PSYCHOLOGY**

**KEY WORDS:** Psychology, Mental Functioning, Mental Health Problems, Behavior, Economics, Associations, Choices, Resources, Behavioral Economics, Rational Decisions, Benefits, Losses, Expected Usefulness, Emotional Motives, Social Motives, Economic Decision MAKING.

**Tanya Garg**

**ABSTRACT**

The study of a person's behavior and mental functioning is known as psychology. Its main purpose is to treat mental health problems and, with the help of this professional insight, improve the other person's behavior. While psychology deals with mental behavior, economics deals in the study of how different associations make choices about how to allocate resources. Psychology and economics are related via behavioral economics. It is the study of why people react the way they react in the real world by understanding them by combing the elements of economics and psychology. What is assumed by this theory is that when people are given choices, they are likely to make rational decisions by weighing the losses and the benefits of each offered choice, leading them to make the best decision for themselves. People are capable of making decisions with maximum expected usefulness. That is, people think they are equipped with infinite knowledge and time. However, findings from psychology have put forward that emotional and social motives are the reason behind economic decision making. Even though the parallels between psychology and economics break down in some domains, they are still useful for understanding nature and economics. Psychology and economics are therefore related and not exclusive of each other.