

Maryna Pohorielova, student of Odesa National University of Economics

Helen Dibrova associate professor, Odesa National Economic University

A COMPARATIVE CHARACTERISTIC OF THE PARADIGMS OF BEHAVIORAL ECONOMICS AND THE NEOCLASSICAL ECONOMIC THEORY

Abstract. The contemporary market-oriented economy has been developing in the neoclassical paradigm. However, the behavioral trend, which detached in the 20th century, introduced an opportunity to expand its boundaries. While no unequivocal opinion on whether the specified theories are alternative, complementary, or successive is found in the academic literature, to outline the future of economic thought, it is necessary to resolve this issue, evidencing the defined topic's high relevance. Correspondingly, this study aims to perform an end-to-end comparative analysis of the paradigms of the behavioral and neoclassical economic theories. This goal is achieved by highlighting the behavioral and neoclassical economic models' main theoretical and methodological insights. Their differences and common properties are analyzed by the following criteria: methodology, the psychological makeup and motivation of subjects, a market model, and the landscape of economic policy. A hypothesis regarding the nature of the connection between these concepts is suggested. The research is conducted using scientific methods, such as analysis, synthesis, induction, and deduction, and refers to the works of leading contemporary economists. Based on its results, some superficial differences and essential similarities between the behavioral and neoclassical paradigms are established and systematized. It is suggested that, logically and historically, behavioral economics may be the next form of the neoclassical economic paradigm development. In general, the study is analytical in nature and attempts to contribute to the improvement of the current state of study in the behavioral and neoclassical economic fields in the context of fostering their interconnection.

Keywords: comparative analysis, neoclassical economics, behavioral economics, rational economic behavior.

Погорєлова Марина, студентка Одеського національного економічного університету

Діброва Олена, викладач кафедри фінансів, Одеський національний економічний університет

ПОРІВНЯЛЬНА ХАРАКТЕРИСТИКА ПАРАДИГМ ПОВЕДІНКОВОЇ ЕКОНОМІКИ ТА НЕОКЛАСИЧНОЇ ЕКОНОМІЧНОЇ ТЕОРІЇ

Анотація. Сьогодні ринкова економіка розвивається в парадигмі неокласичної теорії, хоча поведінковий напрям, що виокремився наприкінці ХХ століття, може значно розширити її межі. При цьому в сучасній науковій літературі не виявлено однозначної думки щодо того, чи є означені теорії альтернативними, комплементарними або співвідносяться як послідовні етапи еволюції підходів до економічного ладу. Натомість для визначення обрису майбутнього розвитку економічної думки необхідно визначити цей зв'язок на підставі усестороннього порівняння засад обох концепцій, що обґрунтовує високу актуальність зазначеної теми. Відповідно, мета даного дослідження

полягає в проведенні наскрізного порівняльного аналізу парадигм поведінкової та неокласичної економічних теорій. Для досягнення поставленої мети висвітлено основні теоретико-методологічні положення поведінкової та неокласичної економічних моделей. Проаналізовано їхні розбіжності та спільні риси за критеріями методології, психотипу та мотивації суб'єктів, моделі ринку та типу економічної політики. Висунуто гіпотезу відносно характеру зв'язку між даними концепціями. Дослідження здійснено з використанням наукових методів: аналізу, синтезу, індукції та дедукції – на основі наукових праць провідних економістів-сучасників. За підсумками встановлено та систематизовано поверхневі відмінності та сутнісні подібності парадигм поведінкової та неокласичної теорій. Запропоновано думку, що в логічному та історичному аспектах поведінкова економіка є наступною еволюційною формою розвитку неокласичної економічної парадигми. Дослідження має аналітичний характер, та в ньому здійснено спробу долучитись до покращення поточного стану вивчення поведінкової та неокласичної економічних течій у контексті їхньої взаємодії.

Ключові слова: порівняльний аналіз, неокласична економіка, поведінкова економіка, раціональна економічна поведінка.

Problem statement. The emergence of various economic theories marks the development of scientific thought throughout the entire evolution of economic knowledge. However, to be considered the leading one, a school should manifest the most meaningful theoretical and methodological rationale and effective practical approaches to managing business activity.

Nowadays, the neoclassical economic doctrine is recognized as mainstream. It is based on the principles of utility (profit) maximization and rational behavior of all market participants. On the contrary, a behavioral or behaviorist school emerged at the end of the 20th century. It suggested considering psycho-emotional factors during the analysis of decision-making, which implies a certain degree of irrationality throughout markets.

Thus, in a first approximation, the theories of behavioral and neoclassical economics are inherent in colliding and incompatible frameworks. Nevertheless, this is a generalization that needs further argumentation. Particularly, in order to establish the true nature of the interconnection between the behavioral and neoclassical economic schools, it would be reasonable to address the following question: whether these directions of economic science are ultimately opposite and do not share any common features, hence if one of them could substitute another.

It should be noted that from the author's perspective, behavioral economics evolves from the neoclassical economic theory. In other words, in logical and historical dimensions, behavioral economics might be considered a continuation of neoclassical economic thought instead of being an addition to it or isolated from it. Therefore, behavioral economics is not to erase and supplant the neoclassical niche, despite some vulnerabilities of the neoclassical theoretical basis. Its full implementation might initiate a new stage of development of the neoclassical economic theory (deemed behavioral).

Relevance of the chosen topic. The raised issue concerns the future of economic science, which reasons the importance of its solving. The answer will likely outline the form of existence of the global economy and the vector of its development for the next decades.

It is noteworthy that the question of the conceptual connection between the economic paradigms of the behavioral and neoclassical theories is not finally resolved. The scientific community is debating whether behavioral economics complements the mainstream school and hereby will exist within its framework or whether it could establish drastically different conditions for managing economic activity like a separate theory.

This and the current low exploration degree of research into the issue, namely through a comprehensive comparison of both theories aimed at determining the degree of their similarity, precondition the high relevance of the chosen topic.

Analysis of recent research and publications. If one explores the findings in the scientific literature, they are likely to find out that economists mainly study the paradigms of behavioral and neoclassical economics from two aspects, which differ from the author's position.

According to the first one, behavioral and neoclassical economics are opposite theories (or at least have few similarities). Argumentation in this direction is generally the most widespread among the analyzed scientific sources. However, there is no unified view of its role.

Some scientists positively assess the added value of the behavioral approach in the development of economic systems. They conceptualize behavioral economics, highlighting its disagreements with the neoclassical doctrine in favor of the former. In particular, the Ukrainian researchers T. M. Povod and N. O. Advokatova oppose behavioral economics to the overly formalized neoclassical view of markets and its perception of a so-called economic man who tends to behave exclusively rationally (Povod & Advokatova, 2020). They pay special attention to behavioral finance as a component of behavioral economics that studies the decision-making process and reveals certain anomalies which may appear in the process. According to another scientist-economist O. V. Korzachenko, behavioral economics is based on more adequate behavioral patterns than the neoclassical theory because they imply the natural characteristics of economic agents (Korzachenko, 2020). In addition, the researcher's analysis of the development of behavior models makes it clear that behavioral and neoclassical economics not only interact as separate theories but were also formulated in different socio-economic conditions due to the distance in the time of their origin.

It is worth mentioning that similar insights can be found in the works of other outstanding scientists, such as A. Soukup, M. Maitah and R. Svoboda (Soukup et al., 2015).

On the other hand, certain scientific circles are somewhat cynical about behavioral economics and its development prospects. Indeed, in contrast to the neoclassical economic theory, behavioral economics currently does not have a finished form and needs to be formalized into a unified and ordered system of knowledge.

From the point of view of O. D. Jones, further application of the behavioral theory requires solving the following tasks: consider the possibility of renaming the concept; determine the purpose of using its tools; foster a larger number of psychological techniques; integrate other sciences into behavioral economics (Jones, 2018). The researcher L. Pūce reasons that the problems in behaviorism's ideological integrity, completeness of argumentation, and practical application inhibit its development as an independent concept (Pūce, 2019).

The main advantage of this current in studying the behavioral and neoclassical theories is the reinforcement of mostly factual and convincing argumentation. In the author's opinion, the tendency to antagonism, which is observed in several works, may hinder the objectivity of further explorations, though.

Scientists of the second group tend to connect the emergence of behavioral economics with the imperfections of the dominant neoclassical model. M. P. Talavyrya points out that using a neoclassical approach, it is impossible to justify such critical economic phenomena as involuntary unemployment and correlate monetary policy and employment, as well as solve the problems of insufficient savings for retirement and excessive volatility of share prices (Talavyrya & Dorosh, 2021). Behavioral economics can solve these and other issues thanks to the range of tools and levers, as proved by P. Illiashenko (Illiashenko, 2017), R. Chetty (Chetty, 2015). R. Schettkat emphasizes that the methodological base of behavioral economics is designed to complement the neoclassical paradigm with highly effective models (Schettkat, 2018).

Thus, the second approach to understanding the essence and purpose of behavioral economics implicates using behavioral tools and levers without changing the existing economic paradigm. On the other hand, it assumes that behavioral economics must develop within the boundaries of the neoclassical theory, which imposes certain limitations on further research.

There is also an alternative view on the behavioral and neoclassical economic theories. According to it, these schools are interconnected and mutually conditioned, which partially coincides with the author's point. Scientists N. Berg and G. Gigerenzer elaborate on this theory (Berg & Gigerenzer, 2010). E. Angner substantiates the possibility of a "new synthesis" emerging from absorbing neoclassical economics into behavioral economics (Angner, 2019).

Purpose and objectives. This study aims to carry out a comparative analysis of the paradigms of behavioral economics and the neoclassical economic theory. To achieve the set goal, the following objectives should be reached:

1. Explore the essence of the theories of neoclassical and behavioral economics.
2. Establish the common and distinctive features of their paradigms according to the research methodology, the archetype of the personality of economic agents, the motivation behind their behavior, the dominant market model, and the aspired type of economic policy criteria.
3. Establish the relationship between neoclassical and behavioral economics in logical and historical dimensions based on the results of the comparative analysis.

Presentation of the main findings of the research. Today, the neoclassical economic theory represents the dominant thread of economic thought and hence determines the foundations of developed capitalist countries' economic existence. It originates from the late 20th century, the era of the world economy's conversion and social transformations (Vydobora, 2021). Therefore, scientific and technical progress, and the development of market-economic relations, which were associated with expanding the production of goods and services and intensifying market competition, fueled the formation of the neoclassical school.

The conditions of the neoclassical economic theory's emergence shaped its essence. Neoclassical economics is based on the idea of optimization that branches into two essential

predicaments about utility maximization and market correction (Vatamaniuk, 2018). The neoclassical economic outlook centers on economic agents and implies that they obtain complete information about economic processes to make rational decisions (meant to maximize utility for them, i.e., their profit). Moreover, markets are efficient regarding the distribution of resources and tend to a state of equilibrium. The inviolability of free trade and the principle of the invisible hand of the market are presumed, too.

Despite the leading status of neoclassical economics since the beginning of the 20th century, the request for the integration of economics with other fields of knowledge prompted the leading scientists H. Simon, D. Kahneman and A. Tversky, R. Taylor, J. Akerlof to synthesize economic science and aspects of psychology and sociology at the end of the same century. As a result, behavioral economics emerged.

Currently, there is no unified approach to the conceptualization of behavioral economics. It is mainly designated as a theory that studies the influence of non-standard factors, such as emotional state, intuition, bias, preferences, limited information, and social context, on the decisions of economic subjects, establishes irrational deviations that may occur in the process, and determines the consequences for markets and economy in general.

The methodological basis of the behavioral branch of economic science incorporates the concepts of bounded rationality, nudges, and the prospect theory. Bounded rationality indicates deviations from the rational core of behavior among subjects of economic decisions. Typically, they arise because of cognitive distortions in the perception of reality and the lack of complete knowledge about the state of markets. According to the nudge theory, to correct irrational behavior, the environment should encourage, that is nudge, economic agents to make more balanced decisions with positive consequences both for themselves and a system. The prospect theory is designed to explain the peculiarities of decision-making between alternative options.

Given the studied theoretical and methodological principles of the theories of behavioral and neoclassical economics, let us conduct their comparative analysis according to the defined criteria (methodology, psychological makeup and motivation of subjects, market model, type of economic policy).

When considering the methods of researching economic processes and phenomena, one cannot fail to note that the behavioral and neoclassical approaches differ significantly on the surface.

In particular, the descriptive method based on empirical data prevails in the behavioral theory. Studies are conducted through laboratory (for the hypothetical and actual choices) and field (field experiment or randomized study) experiments. On top of that, the methods of so-called neuroeconomics have recently been integrated into behavioral economics – for example, brain scanning using magnetic resonance imaging (Vatamaniuk, 2018).

Instead, the neoclassical economic theory methodology rests upon a normative rather than a descriptive approach and a formalized analysis (based on mathematical modeling). The potential of using specific calculation models allows to solve the issue of optimal choice in conditions of limited resources, as well as make forecasts effectively.

Meanwhile, a detailed study of the behavioral and neoclassical theories reflects that certain aspects of their methodological foundations overlap. First, the methodological

individualism principle meant to enhance the individual's role as a sole economic decision-maker is valid for both paradigms (Soukup et al., 2015). Secondly, the descriptive method in behavioral economics practically provides for the neoclassical normative approach, which is reasoned by the fact that the behavioral theory studies deviations from the normative behavior declared within the framework of the neoclassical school (Berg & Gigerenzer, 2010).

The dichotomy of personality types of subjects of economic decision-making embodies the second criterion of the comparative analysis.

From the point of view of behavioral economists, ordinary homo sapiens stand at the center of the economic system. Their decisions do not necessarily lead to the maximization of their profit because of irrational behavior influenced by endogenous (bounded mental capacity, aversion to losses, excessive self-confidence or self-limitation, prejudice, herd instinct) and exogenous (various external circumstances that overpower internal motivation and individual goals, such as social status) factors.

Homo economicus dominates the neoclassical economic paradigm thought pattern, with the term having emerged at the end of the 19th century. The difference between homo economicus and homo sapiens thinking manifests in three dimensions. Ultimately, an economic man is rational, is inherent in firm willpower, and is guided by personal interests in decision-making. To emphasize that the approximation of economic subjects' behavior leads to the neglect of the role of an individual, some opponents of the neoclassical theory use the ironic term "econs" in their studies (Illiasenko, 2017).

Nevertheless, let us emphasize that the described division's severity should not be overdramatized. People are inherently limitedly rational but can learn principles of reasonable decision-making to become more rational through practical experience (Vatamaniuk, 2018). An interesting phenomenon of regressive evolution of economic thought is hereby observed. The behavioral school is primal about neoclassical economics. Likewise, intuition is primal about reasoning.

The next criterion for the comparative analysis of the concepts of behavioral and neoclassical economics logically follows from the previous one. The motivation of participants of economic relations presents it.

In the 1970s and 1980s, leading behavioral economists R. Thaler, D. Kahneman, and A. Tversky formed the prospect theory. According to it, decision-making proceeds in two stages. During the first stage, an economic agent receives the necessary information and simplifies it for a clearer perception. Following the second stage, they process the input data to consider the selected alternatives, comparing their value with a reference point. The theory stipulates the emergence of deviations from rational behavior, such as overestimating insignificant probabilities and underestimating significant ones.

The neoclassical school advances the expected utility theory as an alternative to the prospect one. By it, the urge to maximize utility, i.e., net revenue, proves to be the final incentive for economic agents' decisions (instead of the value of the alternatives). Remarkably, this pursuit is always fulfilled thanks to homo economicus thinking that makes economic agents calculate the expected utility amongst alternative options and the possibility of their implementation when deciding (Soukup et al., 2015).

Therefore, it must be recognized that in behavioral and neoclassical economics, the

motivation of participants of economic relationships is explained differently within the theories of prospects and expected utility.

On the other hand, if one deviates from the prospect theory, it becomes possible to find some common features. Most notably, behavioral economists have modified the theory of expected utility by completing it with new parameters (Berg & Gigerenzer, 2010). Within this model, economic agents seek to maximize so-called behavioral utility, for example, benefits that could be brought to their social group and provide them psychological satisfaction. In this meaning, behavioral economics develops the thread of neoclassical thought by transferring the theory they described to a new plane but preserving its deep essence.

Moving on, the behavioral theory suggests that markets cannot be consistently efficient for objective reasons. During periods of uncertainty, some systematic deviations from efficiency can occur within a market model, such as over- or under-reactions and speculative bubbles. Upon that, herd thinking triggers the emergence of defects the most.

Such an assumption contradicts the neoclassical economic theory, which assumes that markets function under the principle of efficiency. The capital asset pricing model (CAPM) and the “no free lunch” (NFL) theorem ensure the efficiency of neoclassical markets. The first concept defines the pricing of capital assets, such as stocks and bonds, which helps maintain market equilibrium. The second one refers to the impossibility of obtaining benefits without spending resources under the condition of market mechanism effective operation.

So, given the fact that the principles of market functioning in behavioral economics are much broader than in neoclassical economics (although they have a common starting point), another piece of evidence emerges in favor of the hypothesis of the evolutionary development of the neoclassical economic theory towards behaviorism.

Finally, the essential criterion for conducting the comparative analysis of the behavioral and neoclassical schools is the reputed type of economic policy.

According to the behavioral theory, effective public policy in economics stems from the need to induce households and corporations to act in a certain way to achieve the best results in general and multiply their own benefit in particular. This idea is established behind the behavioral concept of nudging. In practice, the automatic enrollment of an employee into a pension savings plan within a defined contribution pension system vividly illustrates the nudge theory functioning (Chetty, 2015).

In contrast, representatives of the neoclassical current of economics oppose the state policy model that requires intrusive interventions in the economic system. The principle of avoiding any nudges comes to the fore.

So, the difference between economic policy models in behavioral and neoclassical economics lies in the different approaches to state intervention. Argumentation of specific initiatives within economic policy smooths out disagreements, though. It is known that economists T. O'Donoghue and M. Rabin authored the behavioral concept of taxation, which N. Berg later detailed (Berg & Gigerenzer, 2010). According to it, to ensure public health, it is necessary to introduce a tax on harmful food and subsidize healthy food. As a result, by pursuing optimization, customers will likely overcome their irrational desire to receive pleasure (value-like).

Table 1

A comparative characteristic of the paradigms of the behavioral and neoclassical economic theories

Criteria for the comparison	The essence of the characteristic		
	Superficially		In-depth
	Behavioral economics	Neoclassical economics	
1. Methodology	Descriptive, based on empirical data	Normative, based on calculation models	The principle of methodological individualism is shared
2. Economic agents' psychological makeup	Homo sapiens	Homo economicus	In both paradigms, rational behavior is normative. Behavioral economics provides for the possibility of correcting irrational deviations to rationalize the behavior of participants of economic relations.
3. Motivation of behavior of economic agents	Value (the prospect theory and the concept of behavioral utility maximization)	Maximization of utility (the theory of expected utility)	The theory of maximization of "behavioral utility" derives from the theory of maximization of expected utility
4. Market model	May be ineffective due to excessive or insufficient reactions, speculative bubbles	Only effective	Expansion of the neoclassical paradigm by the behavioral economic theory
5. Type of economic policy	Nudging	Minimization of state intervention	Behavioral economics assumes the use of specific tools of the neoclassical inventory (optimization theory) within the framework of the taxation system

Source: compiled by the author

The point is that the concept of optimization belongs in the neoclassical paradigm, so the following assumption may be justified: even within the behavioral economics framework, certain aspects of economic policy should be solved using a synthesis of neoclassical axioms and behaviorism. It seems reasonable to suppose that it would be impossible if behavioral economics did not have a neoclassical evolutionary basis.

In general, the results of the comparative analysis of the paradigms of the behavioral and neoclassical economic theories are reproduced in Table 1.

Conclusions. Thus, the results of the comparative analysis evidence sustainability of the assumption about the emergence of the behavioral theory through the evolution of neoclassical economic thought. This conclusion owes to the similarities or at least common “points of reference” between the defined concepts which are veiled in many in-depth aspects, despite any superficial differences.

The following superficial differences were established during the comparative characterization of the theories of behavioral and neoclassical economics. In behavioral economics, a descriptive approach and experiments are used; in neoclassical economics, a normative approach and mathematical models are used. At the center of behavioral economics is the “reasonable person”, and in the neoclassical one it is the “economic man”. Behavioral economics considers value the ultimate motivation; neoclassical economics suggests profit maximization. Markets can be inefficient within the theory of behaviorism, but through the prism of the neoclassical school, they prove to be efficient under any circumstances. In the behavioral theory, economic policy centers around nudging, whereas in the neoclassical theory, a state must not interfere in economic processes.

Therewith, within the same criteria, the following common principles were identified during a close analysis: the principle of methodological individualism; the concept of behavioral utility maximization as a derivative from the theory of utility (benefit) maximization; appeal to the neoclassical standard of rational behavior. Hence, it can be suggested that neoclassical economics correlates with behavioral economics as a “null hypothesis”.

It is important to note that this study’s scientific novelty involves completing the end-to-end comparative analysis of behavioral and neoclassical economics theories. In the analyzed scientific literature, a one-sided analysis of these schools prevails, being performed either to substantiate the differences between them or (to a lesser extent) to search for their common features. So, the continuation of the problem development in this framework appears to be important for the advancement of economic science in general and the theoretical and methodological design of the behavioral trend in particular.

One of the promising areas of potential future activity is conducting the comparative analysis of the paradigms of behavioral and neoclassical economics on the basis of risk attitude and computing capabilities criteria. In addition, it appears relevant to study, systematize and predict the prerequisites for the evolutionary transition from the neoclassical theory to the behavioral approach within economic system organization and functioning.

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Alina Rybalko, student of Oles Honchar Dnipro National University

Roman Pavlov PhD in Economics, associate professor, Oles Honchar Dnipro National University

THE INFLUENCE OF THE CENTRAL BANK'S DISCOUNT RATE ON THE STOCK MARKET

Abstract. The impact of monetary signals on stock markets remains understudied, despite practical interest from both investors and financial regulators. The purpose of the work is to deepen the theoretical understanding of the nature of the influence of such a monetary policy signal as the central bank's discount rate on stock exchange markets. General scientific research methods of analysis, synthesis, induction and deduction were applied to determine the theoretical aspects of the formation of the reaction of stock markets to monetary policy signals. It is substantiated that there is a certain level of relationship between monetary policy signals and the formation of the reaction of the stock market to them.

Keywords: discount rate, stock market, reaction, monetary policy, volatility.

Рибалко Аліна, студентка Дніпровського національного університету імені Олеся Гончара

Павлов Роман, кандидат економічних наук, доцент, Дніпровський національний університет імені Олеся Гончара