

Hoarding and herding during the COVID-19 pandemic

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Credit: Pixabay

Rushing to stock up on toilet paper before it vanished from the supermarket aisle, stashing cash under the mattress, purchasing a puppy or perhaps planting a vegetable patch—the COVID-19 pandemic has triggered some interesting and unusual changes in our behavior.

Understanding the psychology behind economic decision-making, and

how and why a pandemic might trigger responses such as hoarding, is the focus of a new paper published in the *Journal of Behavioral Economics for Policy*.

"Hoarding in the age of COVID-19" by behavioral economist Professor Michelle Baddeley, Deputy Dean of Research at the University of Technology Sydney (UTS) Business School, examines a range of cross-disciplinary explanations for hoarding and other behavior changes observed during the pandemic.

"Understanding these economic, social and psychological responses to COVID-19 can help governments and policymakers adapt their policies to limit negative impacts, and nudge us towards better health and economic outcomes," says Professor Baddeley.

Governments around the world have implemented behavioral insights units to help guide public policy, and influence public decision-making and compliance.

Hoarding behavior, where people collect or accumulate things such as money or food in excess of their immediate needs, can lead to shortages, or in the case of hoarding cash, have [negative impacts](#) on the economy.

"In economics, hoarding is often explored in the context of savings. When [consumer confidence](#) is down, spending drops and households increase their savings if they can, because they expect bad times ahead," explains Professor Baddeley.

"Fear and anxiety also have an impact on [financial markets](#). The VIX 'fear' index of financial market volatility saw a dramatic 564% increase between November 2019 and March 2020, as investors rushed to move their money into 'safe haven' investments such as bonds."

While shifts in savings and investments in the face of a pandemic might make economic sense, the hoarding of toilet paper, which also occurred across the globe, is more difficult to explain in traditional economic terms, says Professor Baddeley.

Behavioral economics reveals that our decisions are not always rational or in our long term interest, and can be influenced by a wide range of psychological factors and unconscious biases, particularly in times of uncertainty.

"Evolved instincts dominate in stressful situations, as a response to panic and anxiety. During times of stress and deprivation, not only people but also many animals show a propensity to hoard."

Another instinct that can come to the fore, particularly in times of stress, is the desire to follow the herd, says Professor Baddeley, whose book 'Copycats and Contrarians' explores the concept of herding in greater detail.

"Our propensity to follow others is complex. Some of our reasons for herding are well-reasoned. Herding can be a type of heuristic: a decision-making short-cut that saves us time and cognitive effort," she says.

"When other people's choices might be a useful source of information, we use a herding heuristic and follow them because we believe they have good reasons for their actions. We might choose to eat at a busy restaurant because we assume the other diners know it is a good place to eat.

"However numerous experiments from [social psychology](#) also show that we can be blindly susceptible to the influence of others. So when we see others rushing to the shops to buy [toilet paper](#), we fear of missing out and follow the herd. It then becomes a self-fulfilling prophesy."

Behavioral economics also highlights the importance of social conventions and norms in our decision-making processes, and this is where rules can serve an important purpose, says Professor Baddeley.

"Most people are generally law abiding but they might not wear a mask if they think it makes them look like a bit of a nerd, or overanxious. If there is a rule saying you have to wear a mask, this gives people guidance and clarity, and it stops them worrying about what others think.

"So the normative power of rules is very important. Behavioral insights and nudges can then support these rules and policies, to help governments and business prepare for second waves, future pandemics or other global crises."

More information: Michelle Baddeley, 2020. "Hoarding in the age of COVID-19," *Journal of Behavioral Economics for Policy*, Society for the Advancement of Behavioral Economics (SABE), vol. 4(S), pages 69-75, June.

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