

Beyond *Homo Economicus*: An Interdisciplinary Critique of Rationality in Economic Decision-Making

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Abstract

This study provides a critical evaluation of the limitations of the *Homo Economicus* model, which regards economic agents as perfectly rational, self-interested utility maximisers who operate with complete information. Being the cornerstone of classical economics, this model appears to fail in reflecting the cognitive, ethical, and social complexities of real-world decision-making. By drawing on behavioural economics, psychology, and philosophy, this paper explores how cognitive biases, ethical and social frameworks jointly shape economic behaviour. We offer a critique on the persistence of *Homo Economicus* in economic discourse and highlight how market narratives treat irrational behaviour as mere preferences, hence, masking the model's limitations. Integrating Kantian ethics and Nietzschean critiques of rationality, the paper's interdisciplinary approach purports to present a more holistic framework for understanding decision-making. We argue that economic policy, financial regulation, and corporate strategy must move beyond reduced from models and instead incorporate aspects of psychology, morality, and social context. This framework offers a more comprehensive angle from which to interpret phenomena like financial crises, ESG trends, and the evolving nature of market behaviour in complex global economic systems.

Keywords: Homo Economicus, behavioural economics, bounded rationality, cognitive biases, ethical decision-making, interdisciplinary economics.

1. Introduction

The traditional economic model has long relied on the concept of *Homo Economicus*, which assumes that individuals act with perfect rationality, possess unlimited cognitive abilities, and are guided solely by self-interest. Chang (2022) argues that before 1980s, economics was shaped by a variety of schools of thought—such as Classical, Marxist, Keynesian, and others—each offering different moral and political viewpoints. However, since the 1980s, the Neoclassical school has dominated, emphasizing mathematical models and assuming that individuals are purely self-interested (Chang 2022; Söderbaum 2009). As such, agents make decisions based on complete and accurate information, always seeking to maximize personal utility (Persky 1995). While this construct has served as a convenient analytical tool, it oversimplifies human behaviour and fails to account for important aspects of decision-making, such as ethical considerations, and social influences (Schreck et al. 2020).

Hathaway (2021) suggests that despite its conceptual bankruptcy, the notion of *Homo Economicus*, is propped up by the very market discourse. According to his analysis, the abstraction of *the market* into a placeless, all-encompassing realm of exchange allows it to be seen everywhere and, consequently, justifies the omnipresence of the rational, utility-maximizing individual. The idealized conditions of perfect competition - perfect information, identical products, frictionless exchanges - create a fantasyland where *Homo Economicus* thrives, unchallenged by context or complexity (Hodgson, 2019). Even the elevation of *the market* to a godlike, omniscient entity reinforces the belief in its participants as hyper-rational agents, rendering real-world deviations irrelevant (Blocher, 2007). Ironically, the very irrationalities and social dynamics are reabsorbed into the economic orthodoxy as evidence of subjective preferences rather than as symptoms of a broken model; thus, the *Homo Economicus* myth persists not despite its flaws, but because market discourse insists on seeing those flaws as features (Hathaway 2021).

The concept of *bounded rationality*, introduced by Simon (1984), suggest that individual agents cannot process all available information without constraints. Instead, they rely on heuristics and mental shortcuts, which introduces bias in their decisions (Kahneman & Tversky, 1979). Furthermore, as epistemology suggest the fact that individuals operate in an imperfect information setting their implied knowledge and beliefs are inherently incomplete and fallible (Feldman 2003).

Faced with an increasing complexity of global economic systems it is imperative that a re-evaluation of traditional economic assumptions takes place. Financial instability, speculative bubbles, and systemic crises have revealed the inadequacies of models based solely on rational utility maximization. Similarly, policy breakdowns in climate change mitigation, wealth inequality, and corporate governance all reflect the need for an alternative economic paradigm with ethical criteria at its core while also acknowledging cognitive constraints. The development of Environmental, Social, and Governance (ESG) investment trends also reflect the need for decision-makers to prioritize long-term sustainability and ethical responsibility over short-term financial gain.

Extant critiques of the *Homo Economicus* principles - particularly from behavioural economics and philosophy - have markedly challenged pure rationality and self-interest. In particular, Kahneman and Tversky (1979) demonstrated, that cognitive biases systematically distort decision-making, whilst Sen (1977) argued that ethical considerations cannot be ignored in economic behaviour. Many of these critiques however remain disciplinary in scope, focusing either on psychology's role in decision-making or ethical concerns in isolation. What remains underexplored is how these dimensions interact - that is, how cognitive biases, ethical frameworks, and social influences jointly shape economic behaviour in ways that standard models fail to reflect (Bowles, 1998).

Drawing on the theoretical foundations of Kant and Nietzsche, this study seeks to bridge this gap by integrating insights from behavioural economics, psychology, and philosophy. Kant's emphasis on moral duty and ethical reasoning challenges the reductionist view of humans as purely self-interested actors, while Nietzsche's critique of rationality and exploration of human drives offer a deeper understanding of the irrational and value-laden dimensions of economic behaviour.

In this context, an interdisciplinary approach is needed to capture the complexity of human economic behaviour. Those economic decisions that are not made in isolation are shaped by an ever-present interaction of psychological biases, ethical principles, and social contexts (Andreoni & Miller 2002). Psychology gives us the building blocks to understand how cognitive limitations shape choice, while philosophy gives us a lens through which we can examine the ethical consequences of economic choice. Sociology provides prescriptive results regarding how far institutions, cultural values, and

group behaviour shape market outcomes (Fehr & Schmidt, 1999) while behavioural research has established that institutional factors – including social norms, institutional structure, and market pressure – significantly influence individuals' decisions (Ariely, 2008).

In the context of financial markets, Efficient Market Hypothesis (EMH) (Fama, 1970) has been highly discounted by evidence from behavioural finance suggesting market participants to have irrational attitudes, i.e., herd and overconfidence behaviour, which produce anomalies like speculative bubbles and financial crises (Benartzi & Thaler, 1995). Unless we include these other perspectives, the simplification of economic models will to a significant extent discredit the effectiveness of current policies to cope with real complexities.

This paper aims primarily to provide a wider and more realistic framework of a wiser and better understanding of economic decision-making that will inform policy, financial regulation, and corporate strategy. In particular, this research critically assesses the limitations of the Homo Economicus model and further proposes a more holistic framework that engages what has been discovered from behavioural economics, psychology, and philosophy. It also tests the central hypotheses of mainstream economic theory by examining how cognitive heuristics, ethical concerns, and social institutions shape choice. The framework also gives a more realistic account that clarifies our knowledge of market irregularities, like speculative bubbles and financial crises, by uncovering the psychological and social forces that lead to irrational behaviour.

The rest of the paper is organized as follows: Section 2 elaborates on the pertinent literature in various aspects of human decision making and rationality, whilst section 3 provides a critique of *Homo Economicus* and the role of behavioural economics. Section 4 proposes a holistic model of economic decision-making and section 5 provides some concluding remarks.

2. Pertinent Literature

2.1. Rationality and the Nature of Human Decision-Making

For centuries, the question of human rationality has been at the forefront of philosophy and economic theory. Classical rationalist philosophers, such as René Descartes and Immanuel Kant, advocated the idea that humans are inherently rational beings with the capacity for logical reasoning and valid decision-making. Descartes' (1641) famous dictum, *Cogito, ergo sum* (“*I think, therefore I am*”), encapsulates the belief that reason is the defining characteristic of human nature. Similarly, Kant (1785) argued that reason guides moral and ethical decision-making, instructing the principles by which people act in pursuit of the greater good. This philosophical foundation heavily influenced early economic theory, in particular the Homo Economicus model, which assumes that individuals act as rational agents that seek to maximize their utility. Classical and neoclassical economic theories built upon this assumption, hypothesizing that market participants always make rational, self-interested choices given available information (Esposito and Mastromatteo 2024).

Adam Smith's (1776) concept of the “invisible hand” further entrenched the notion that rational self-interest leads to optimal economic results. However, as economic thought evolved, scholars began to recognize the limitations of this purely rational model. The emergence of behavioural economics, pioneered by Kahneman and Tversky (1979), challenged the assumption of human rationality. Their work demonstrated how cognitive biases, emotions, and heuristics would consistently lead people to make irrational or suboptimal decisions and prove people loss averse, i.e., that people dislike losses

more strongly than they like equivalent gains - all of which defies the presumption of utility maximization rationality.

This shift is also coincident with some of the prominent developments in existentialist and pragmatist philosophy that acknowledge the complexity of human decision-making over abstract logic. Kierkegaard (1843) believed human choice is determined by subjective experience, emotion, and social context, rather than calculation of reason alone whereas field experiments in behavioural finance (Benartzi & Thaler, 1995) demonstrate that the risk-taking behaviour of investors deviates systematically from rational models as they overreact to losses in the short term despite the long-term gains in financial markets. Human decision making has traditionally been studied from the perspective of rationality, particularly in economics, finance, and cognitive psychology.

Classical economic frameworks have assumed that individuals make fully rational decisions out of available information to seek utility maximization (Zafirovski, 2008). However, recent research shows that decision making is considerably influenced by cognitive limitations, motivational and affective processes, and psychological biases that compromise the traditional rationality approach. More precisely, Ganuthula (2024) in a paper that integrates research from cognitive neuroscience and psychology, demonstrates that what could appear as departures from rationality could be adaptive responses that consider affective and motivational states. He further argues that rational behaviour does not solely result from logical reasoning but is a product of a dynamic interplay between motivation, emotions, and cognitive processes.

This perspective broadens the understanding of human judgment and suggests that cognitive biases under some circumstances may serve beneficial roles by aligning perception and cognition with underlying emotional states and motivations. A fundamental shift in the understanding of decision-making was brought about by Herbert Simon's bounded rationality theory. Giarlotta and Petralia (2024) point out Simon's argument that people are bound by cognitive and informational constraints and make decisions that are 'satisficing' rather than optimizing. This theory has been foundational in numerous fields, such as economics and finance, insofar as it brings into context the constraints in human computational powers as well as availability of information in decision-making.

Following such observations, behavioural economics employs principles from psychology to explain why individuals make seemingly irrational choices. Faria (2024) explains how cognitive biases, heuristics, emotions, and social influences shape economic decision-making. The study points out that these influences affect consumer behaviour, financial decision-making, and public policy, leading to interventions that allow individuals to make better choices. By including psychology in economic theory, behavioural economics creates a more nuanced explanation of decision-making processes that stray from purely rational assumptions.

The distinction between traditional finance and behavioural finance also calls for the inclusion of psychological perspectives in decision-making. Traditional finance theories, i.e., Efficient Market Hypothesis (EMH) and the Capital Asset Pricing Model (CAPM), assume investor rationality and market efficiency (Fama 1970; Sharpe 1964). However, empirical findings demonstrate persistent departures from these rational assumptions. Sameer (2024) analysis, for instance, describes how emotions, cognitive biases, and social influences affect investor decision-making, leading to inefficiencies in the market.

Additionally, Shiller (2000) provides significant empirical evidence that asset bubbles - such as the Dot-Com Bubble and the 2008 Housing Crisis - are caused by herd behaviour, speculation, and

overconfidence, all of which are contradictions of the EMH (Fama, 1970). Furthermore, Akerlof & Shiller (2009) argue that emotions and narratives play a core part in economic cycles, which aligns with the view that markets are psychologically and socially driven rather than calculation driven.

New advances in modelling investor behaviour have also tried to more realistically simulate sub-rational decision-making processes. Liu et al. (2024) present a framework that incorporates several aspects of sub-rationality into financial market simulations. Their model, which is based on reinforcement learning, replicates investor behaviour in the presence of bounded rationality, prospect biases, myopia, optimism, and pessimism. The findings indicate that these psychological influences significantly affect market liquidity and price efficiency, demonstrating that investor behaviour deviates systematically from purely rational expectations.

While bounded-rational and prospect-biased behaviours contribute to liquidity, myopic and pessimistic expectations make market fluidity decline. Collectively, the convergence of cognitive psychology research, behavioural economics, and finance research underscores that decision-making is not a purely rational process. Instead, it is a dynamic process influenced by motivational states, cognitive limitations, and psychological biases. Insights into these factors can make predictive models of behaviour more accurate, inform more effective policy and investment decisions, and ultimately reduce the disparity between theory and real-world decision-making.

2.2. The Role of Free Will vs. Determinism in Economic Decision-Making

The *determinism vs. free will* debate has been an ever-present topic of discussion in philosophy for centuries, shaping our understanding of human agency, blame, and choice. Baruch Spinoza and Friedrich Nietzsche presented contrary perspectives on whether humans have true free will or whether their choices are the result of factors beyond their control. Spinoza (1985), who was a determinist, argued that human behaviour is the result of prior causes and does not permit true freedom. In his view, individuals behave because of natural law and conditioning of the mind and not from independent decision. Nietzsche (1968) did, nonetheless, challenge traditional notions of free will but underlined the principle of will to power and argued that human beings are driven by unconscious factors and social forces rather than merely rational decision.

In the economic theory of old, free will has always been assumed as an axiom. The paradigm of *Homo Economicus* that dominated economic theory for so long presumed that individuals are rational agents that make decisions freely to maximize utility. Adam Smith's *Wealth of Nations* (1776) and later neoclassical economists assumed that market agents could assess information, weigh costs and benefits, and make rational decisions without interference. This role is highly akin to a libertarian understanding of free will in the sense that economic agents are independent from determinist forces (Hodgson 1998).

However, recent research in economic and behavioural finance challenged this assumption by revealing the extent to which heuristics, emotions, and cognitive biases impact decision-making. Path-breaking research by Kahneman and Tversky (1979) in behavioural economics demonstrated that individuals tend to make illogical choices due to mental shortcuts, loss aversion, and social influence. This view is consistent with a more deterministic view of human behaviour, since it implies that most economic choices are not freely determined but rather are influenced by unconscious cognitive biases and environmental pressures. Thaler's (1980) research on nudging also supports this notion, demonstrating how policymakers and institutions can shape choices by making subtle changes to decision-making environments.

In finance and the investment banking industry, the determinism versus free will debate is becoming sharper with the growing application of artificial intelligence (AI), algorithmic trading, and automation (Lo 2017). While previous investing was extensively marked by individual human choices, contemporary financial markets are increasingly controlled by prediction models, machine learning algorithms, and high-speed trading platforms (Kirilenko & Lo 2013; Barberis 2018). Such technological advances bring with them the fundamental questions of how far, if at all, investors actually do have free will in financial markets. To the extent that decisions become increasingly - or even completely - determined by machines, in how far can we still presume human investors have agency? This mirrors Nietzsche's argument against free will, since now financial markets are determined by forces outside the control of any individual, supporting a more deterministic economic behaviour.

Whereas orthodox economic theories anticipate rational independent choice, technological innovation and the findings of behavioural economics suggest economic choices are more dynamic and nuanced phenomena. Understanding these dynamics is therefore crucial to policy makers and investors in a world where human agency becomes more deeply embedded in automation and conditioning of the human.

2.3 Ethics and Economic Behaviour

The meeting place of ethics and economic action has been the subject of economic and philosophical debate for a while now. While mainstream economic methods have been prone to emphasize self-interest as the principal motivation of human decision-making, philosophical accounts suggest a more complicated understanding - one that embraces moral in addition to economic rationality (Bowles, 1998).

Aristotle's (1999) *virtue ethics*, for example, argues that ethical behaviour is not simply a question of following rules but of cultivating virtues such as fairness, honesty, and responsibility. He thought that individuals and societies thrive when they act in ways that conduce to moral virtues, rather than merely pursuing wealth or self-interest. Similarly, Adam Smith's *Theory of Moral Sentiments* (1759) rejects the purely self-interested account of economic behaviour. Smith, widely associated with free-market economics, argued that human relationships are regulated by empathy, fairness, and a sense of justice. He held that economic agents are not isolated rational actors but social beings prone to ethical influences.

Despite Smith's early identification of moral sentiment in economic activity, classical and neoclassical economic thought largely centred on self-interest and market efficiency. In *The Wealth of Nations* (1776), Smith introduced the concept of the 'invisible hand,' which suggested that individuals pursuing their own economic self-interest could unintentionally serve the good of society. This interpretation became central to classical economic theory, solidifying the Homo Economicus approach - wherein individuals are assumed to act solely in their own financial interest. Yet as economic systems collapsed, scholars and policymakers began to appreciate the significance of ethics in market behavior (Arrow 1951). The evolution of welfare economics, corporate social responsibility (CSR), and equity in economic exchange demonstrated a shift towards the incorporation of ethical considerations into economic modelling (Carroll 1999; Kahneman, et al. 1986).

In the world of finance today, the evolution into Human Investors from Homo Economicus is most evident in the growing emphasis on socially responsible investing (SRI) and Environmental, Social, and Governance (ESG) investing (Statman 2019). Investors are now taking note of ethical

considerations alongside financial returns, a recognition of the broadening appreciation that markets need to serve not just economic efficiency but societal well-being. ESG investment incorporates issues of environmental sustainability, social justice, and corporate governance into financial decision-making, supporting the notion that ethical conduct and long-term economic prosperity are aligned (Friede et al. 2015). The trend is reminiscent of the virtue ethics and moral sentiments schools of philosophical thought, where it is argued that economic conduct is not solely driven by the maximization of individual gain but also by the promotion of ethical and responsible decision-making (Sandel 2012).

Nowadays, the intersection of ethics and economic behaviour is an even more important area of inquiry, particularly as technological advances and algorithmic decision-making reshape economic existence. Two seminal works - *Ethics and Economics: An Introduction to Moral Frameworks* by Jonathan B. Wight (2015) and *The Ethical Algorithm: The Science of Socially Aware Algorithm Design* by Michael Kearns and Aaron Roth (2020) - provide complementary insights into the ways in which ethical considerations influence economic behavior and decision-making, both in traditional settings and in the era of digitalization.

In particular, Wight (2015) offers a foundational analysis of the moral dimensions of economic activity, arguing that economic life is founded upon three complementary ethical systems: outcome-based (focused on welfare outcomes), duty- and rule-based (emphasizing moral obligations), and virtue-based (character- and moral excellence-focused). Wight criticizes traditional economic focus on utility maximization, advocating instead for ethical pluralism - the argument that no single ethical system is dominant and that each has its applicable uses.

Under the same ethical foundations, Kearns and Roth (2020) update the debate to the era of the digital economy, in which algorithms are increasingly intermediating economic and social choices. For as much progress as algorithms have brought efficiency and innovation, they have also created grave ethical concerns, such as bias in loan approvals, college admissions, and hiring, and the erosion of privacy through data abuse. Kearns and Roth highlight the constraints of traditional regulatory approach and propose an alternative solution: socially responsible algorithmic design. It integrates ethical values into the actual framework of algorithmic systems so that they support social values and protect individual rights. Together, these works illustrate the evolving relationship between ethics and economic behavior.

Wight's emphasis on ethical pluralism provides the theoretical groundwork for understanding moral decision-making in conventional economic contexts, and Kearns and Roth translate this into the virtual context, engaging with the ethical challenges of algorithmic systems. Both texts demand a more nuanced and ethically sensitive understanding of economic behaviour, whether in policymaking, market regulation, or technology innovation. By embedding ethical values in economic and algorithmic choice, we can develop systems that are not only efficient but also equitable and fair. While the literature provides sweeping critiques of rational choice theory, they have been scattered across disciplines. The following section integrates these findings, demonstrating how behavioural economics, ethics, and social theory collectively undermine the assumptions of the Homo Economicus model.

3. A Critique of Homo Economicus and the Role of Behavioural Economics

3.1. Methodological differences: Mainstream vs. Behavioural Economics

Mainstream economics is highly reliant on experimental methods and tangible evidence, applying the scientific method to subject rational models of behaviour to tests (Smith 1982). In contrast, behavioural economics draws on a broad range of methodologies like hypothetical illustrations, controlled experiments, and real-world observation to understand the cognitive and emotional underpinnings of economic decision-making (Camerer et al. 2004).

Early behavioural research, such as Kahneman and Tversky's experiments and Thaler's mental accounting work, demonstrated that human decision-making deviates from the rational optimization assumed by orthodox economics (Thaler, 1980). Researchers like Grether and Plott (1979) questioned whether optimization theory could adequately explain human behaviour, and therefore behavioural economists supported their empirical data with controlled experiments and field observations (Loewenstein & Angner, 2007; Loewenstein & Adler 1995).

However, scepticism still exists regarding the external validity of experimental findings. While some experiments found no difference between experimental and hypothetical responses (Camerer & Hogarth, 1999), other researchers did find significant differences and maintained that context plays a significant role in decision-making (Neill et al., 1994; Parco et al. 2002). In order to bridge such issues, behavioural economists have turned to process measures and randomized field experiments, such as MRI scans, to observe brain activity during decision-making. Such methods provide additional evidence on the psychological and neurological foundations of economic decision-making, bridging the gap between theoretical abstractions and real behaviour.

3.2. Risk Perception and Decision-Making

Based on the dividend irrelevance theory of Miller and Modigliani (1961), rational investors ought to be indifferent about capital gains versus dividends. Nevertheless, a body of research works (Harris et al., 2015; Han et al., 2021; Chang et al., 2022) show that most investors are not that way. Instead, they have deep dividend preferences, even at the expense of inferior results - a practice taken advantage of by portfolio managers employing "juicing" strategies to push dividend yields aggressively. The catering model (Baker & Wurgler, 2004) and empirical results by Hartzmark and Solomon (2019) also illustrate how investor sentiment shortfalls rational expectations, particularly on the part of less informed investors who perceive dividends and capital gains as being different in kind. After correcting for behavioural biases like loss aversion and probability weighting (Tversky & Kahneman, 1992; Barberis et al., 2016), juicing's explanatory power disappears, highlighting the incompleteness of the Homo Economicus model in capturing real investor behaviour.

One of the central concepts in economics is opportunity cost - the cost of the next best alternative forgone. Behavioural economics emphasizes that risk perception is irrational but susceptible to cognitive influences and emotion. Prospect Theory (Kahneman & Tversky, 1979) opposes the traditional Expected Utility Theory by showing that individuals evaluate risks in terms of subjective gains and losses and not objective probabilities. Loss aversion, say, leads to the preference of loss avoidance over gain acquisition even when the latter offers higher expected utility (Rottenstreich & Hsee, 2001). Perception of risk is both quantitative and qualitative.

Quantitative methods like the Sharpe Ratio and Value at Risk (VaR) provide numerical risk measures but often fail to pick up the psychological factors that inform decision-making. For example, during the 2008 financial crisis, excessive reliance on VaR models led to crude risk underestimation due to the investors and regulators' neglect of emotional biases like greed and fear (Rizzi, 2015; Szyszka, 2011).

Behavioural economics thus demands integration of psychological understanding with traditional measures of risk so as to be able to understand and predict economic behaviour.

3.3. Consumer behaviour and Risk

Consumer choice-making in risky circumstances is a rich and multidimensional process regulated by both rational and affective considerations. Samuelson (1948) argues that decision emerges after people recognize the infinite character of the world and must make a choice between them, a reflection of the fundamental economic problem of unlimited wants versus limited means. Consumers, however, are typically under fear and uncertainty when making decisions, particularly in high-risk environments like financial markets (May, 1950). Low self-esteem will usually exacerbate this anxiety, so that individuals will resort to risk-reducing strategies such as brand loyalty, word of mouth, and heuristics (Coopersmith, 1967; Woodruff, 1972).

Behavioural theories, such as the Prototype-Willingness Model (Gerrard et al., 2008), abdicate from the idea of pure rationality by incorporating inner variables (e.g., willingness, self-esteem) and external variables (e.g., accessibility, media exposure) into economic choice. As an illustration, media portrayal of alcohol and aggression will increase customers' willingness towards more dangerous habits, thereby projecting the impact of social and environmental factors on economic decision-making.

3.4. Perception and Risk Perception in Economic Contexts

Whereas instinctive body reactions are passive, perception is active interpretation and selective observation of one's environment (Hellriegel, et al. 1989). Behavioural economics emphasizes that perception is subjective in nature, based on personal experience, emotions, and perceptual biases (Kast & Rosenzweig, 1974). This subjectivity applies especially in the financial markets, where risk perception and reward assessment by investors depend on factors including familiarity, overconfidence, and framing effects (Baker & Nofsinger, 2002; Weber, 1991).

Risk perception theories, such as Protection Motivation Theory (PMT) and Risk Homeostasis Theory (RHT), also illustrate the way individuals assess and respond to uncertainty. PMT suggests that individuals take precautionary measures when they perceive a high degree of threat, while RHT contends that more safety measures can lead to more risk-taking because individuals modify their behaviour based on perceived security (Wilde, 1994). These theories highlight the interaction between rational analysis and psychological factors in economic decision-making.

3.5. Behavioural Finance and the 2008 Financial Crisis

Behavioural economics has launched a strong critique of rational choice theory, questioning its underlying assumptions regarding human behaviour and market processes. Traditional economic model defenders, though, contend that rationality is still a useful and predictive concept for economic behaviour. We recognize these views and address important counterarguments, but highlight the need to incorporate behavioural economics into economic analysis, especially in the context of actual events such as the 2008 financial crisis.

In particular, one of the key claims in favour of orthodox models is rationality as an approximation. Researchers such as Becker (1962) hold the view that bounded rationality and cognitive biases do not disqualify rational choice theory but suggest that rationality occurs with certain bounds. While agents can make errors, their collective behaviour tends to represent rational outcomes over time, especially in competitive markets. This view is augmented by Friedman's (1953) 'as-if' hypothesis, assuming that even if humans do not make rational optimization decisions consciously, markets behave as if this happens, resulting in efficient outcomes in the presence of individual irrationalities.

Similarly, the Efficient Market Hypothesis theorists (Fama, 1970) argue that markets self-correct over time, as rational arbitrageurs exploit mispricing and restore equilibrium to the markets. Empirical evidence in favour of this position points out that most behavioural anomalies vanish once one controls for transaction costs and arbitrage opportunities (Malkiel, 2003). Although these arguments highlight the robustness and relevance of classical models, they do not effectively address the intricacies of human behaviour uncovered by behavioural economics.

The 2008 economic crisis, for instance, is a stark reminder of the shortcomings of classical economic theory and the requirement for behavioural insight. Classical theory, such as the Efficient Market Hypothesis (EMH), assumes that markets are in efficient states and that investors act rationally (Fama, 1965). However, the crisis demonstrated that cognitive biases such as overconfidence, herd behaviour, and emotional decision-making were significant drivers of the collapse of big financial institutions (Rizzi, 2015; Szyszka, 2011). For example, the widespread use of Value at Risk (VaR) models led to gross risk underestimation since investors and regulators failed to account for the possibility of huge losses (Vasileiou 2022). Similarly, the housing bubble was also driven by the hope that housing bonds would not default, due to emotional biases (Marney & Fakhry 2024). These behaviour variables entered into regulatory bodies too, and they are a classic example of the systems level irrationally driven decision-making. The crisis demonstrates a requirement for a more comprehensive framework combining behavioural science with traditional economic theory.

Even if traditional economic models remain useful for the analysis of aggregate market efficiency and behaviour, the 2008 financial crisis demonstrates that they are insufficient alone. Behavioural economics provides a critical approach for examining the social and psychological influences behind economic decision-making, particularly in a situation of crisis. By integrating behavioural understanding with traditional models, we can develop a more robust and realistic model for economic behaviour analysis, policymaking, and preventing future financial catastrophes. Thus, despite its flaws and shortcomings, behavioural economics is a subject that cannot be ignored and has to be seriously considered in any comprehensive economic analysis.

As Wight (2015) argues, ethical pluralism—the recognition that no single ethical system dominates—gives richness to our understanding of economic decision-making. Similarly, Kearns and Roth (2020) refer to the need to develop algorithms consonant with societal values and protective of individual rights, showing the ethical aspects of economic and technological systems. These arguments challenge the presumptions of classical economics and demand a richer, ethically sophisticated model of economic behaviour.

Recognizing the limitations of conventional economic assumptions, this study proposes an integrated model that unites the results of behavioural economics, psychology, and philosophy. The following section outlines this inter-disciplinary approach, offering a more comprehensive model for explaining and predicting economic decision-making in a more sophisticated financial environment.

4. An Alternative Model of Economic Decision-Making

Despite all its failings, behavioural economics is a field that must be taken seriously, particularly given the broader philosophical and psychological insights that it brings to economic research. Critics lament that behavioural economics lacks a grand theoretical paradigm, presenting instead a shopping list of biases and heuristics but no coherent predictive system (Gul & Pesendorfer, 2008). In addition, it has been faulted for its excessive use of laboratory experiments, which may not be capable of reflecting everyday economic behavior, especially in repeated, high-stakes interactions where decision-making would be more likely to adhere to rational expectations (Levitt & List, 2007). Such criticisms, nevertheless, do not undermine the significance of the field but rather point to areas of refinement and synthesis.

Classical economic theory, rooted in the rational agent assumption, has long dominated the discussion of market action. But this standard approach too often overlooks the deeper philosophical and psychological influences that shape human choice. Drawing on the insights of Kant and Nietzsche, the proposed methodology seeks to transcend the limits of the standard model by injecting ethical imperatives, cognitive constraints, and social pressures into economic theory. This informed perspective acknowledges the complexity of human behaviour, which is not fully explained by rationality. To this extent, behavioural economics, despite its current limitations, provides a necessary counterbalance to mainstream models.

It challenges the naive assumptions of rational choice theory and paves the way for a more holistic approach to economic phenomena. While it is not yet a fully integrated framework, its emphasis on real psychological and social facts renders it an indispensable tool for comprehending and coping with the complexity of modern economic behaviour. Thus, even while the discipline still evolves, its findings remain essential to a more inclusive and human-centred economics.

4.1. Major Components of the Framework

One of the presumptions of this model is that economic choice is not an independent decision but is intimately interconnected with moral, cognitive, and social factors. In the Kantian tradition, economic decisions are not utility-maximizing alone but are often governed by moral duty and universal moral principles. Kant's deontological ethics, established in his *Groundwork of the Metaphysics of Morals* (1785), suggests that human beings are bound by categorical imperatives—moral laws that are beyond self-interest. In economic activity, this manifests in phenomena such as corporate social responsibility and ethical investing, wherein decision-making is aligned with broader moral imperatives rather than pure profit maximization (Ulrich, 2008).

Similarly, Amartya Sen (1987) argues that ethical analysis lies within economics, not beyond it, and is at the core of its careful practice, contrary to mainstream division between moral commitment and rational choice. That economic behaviour is conditioned by notions of fairness, reciprocity, and mutual well-being challenges the premise of purely self-interest-based market participants and illustrates the applicability of moral consideration to economic choice. From this perspective, stakeholder capitalism's development, investigated by Freeman (1984), represents an evolutionary milestone in enshrining Kantian ethics in corporate management through consideration of obligations to communities, workers, and the environment.

By contrast, Nietzschean thought undermining this moral order privileges the will to power, creativity, and the revaluation of values. In *On the Genealogy of Morals* (1887), Nietzsche undermines the presuppositions of fixed moral obligations and rather treats economic behaviour as an area where individuals and institutions exercise their power and renegotiate economic values. His critique of herd instinct and passive conformity informs us on the dangers of groupthink in financial markets, speculative bubbles, and irrational exuberance—phenomena felt in contemporary crises.

Boltanski and Chiapello's analysis (2005) validates this point, demonstrating how contemporary capitalism realizes Nietzschean critiques by entrepreneurial innovation and individualistic disruption. Nietzsche's perspective highlights how economic actors, rather than being constrained by pre-given moral dictates, will tend to forge new values through innovation, disruption, and defiance of economic orthodoxy. Norman (2015) also contextualizes Nietzsche's economic relevance, noting how his revaluation of values opens up room for new forms of economic agency outside of both utilitarianism and deontological duty.

Beyond ethics and power dynamics, cognitive limitations also complicate decision-making. Behavioural economics has demonstrated that individuals employ heuristics and biases as frequently as unadulterated rationality. The Kantian principle of bounded rationality - human cognition is restricted by the edges of reason (Simon, 1984) - echoes in current studies of loss aversion, overconfidence, and herd behaviour (Kahneman, 2012; Thaler & Sunstein, 2008).

These limits imply a model of economic choice that is founded not on the idealized rational actor, but on human psychology. At the same time, Nietzsche's emphasis on instinct and unconscious drives suggests that economic actors are often motivated by underlying psychological forces of which they are not consciously aware. His insights anticipate modern integrations of neuroscience and psychology into economic theory that allow for emotional and cognitive biases that affect economic choice- further illustrating the inadequacy of exclusively rational-based models.

Social structures also condition economic action, since choice is embedded in cultural and institutional structures. The Kantian emphasis on duty and universal law suggests that social norms matter in guiding economic decision-making, facilitating cooperation, and enabling trust. Granovetter's (1985) theory of embeddedness testifies to this, noting that economic activity is embedded in social networks rather than independent exchanges. North (1990) also argues that both formal and informal institutions ultimately shape economic outcomes by structuring incentives and expectations. Nietzsche's warning about herd morality, however, is a warning against unthinking absorption of economic norms, and it points to the ways in which visionary entrepreneurs and disruptors reshape financial worlds.

As Zuboff (2019) and Brynjolfsson and McAfee (2014) explore, this tension is especially evident in the innovation of artificial intelligence and algorithmic decision-making, which simultaneously embody radical innovation and present new philosophical challenges to human agency and moral responsibility in economic processes. Floridi (2013) even warns that in this era of machine-decision making, traditional ethical theory is no longer sufficient, demanding a rethinking of moral agency in digital economies.

Overall, by embracing Kantian deontology, Nietzschean critique, behavioural insights, and sociological analysis, this model sketches a four-dimensional picture of economic behaviour - one that accepts moral reasoning, power relations, cognitive limitations, and institutional embeddedness as intrinsic to the way economic choices are made.

4.2. Applications of the Framework

By synthesising ethical, cognitive, and social dimensions, this philosophical framework has implications for real-world economic issues. Market anomalies, such as speculative bubbles, are better understandable by an examination of both Kantian rational structures and Nietzschean irrational appetites. Kant's emphasis on moral reasoning, based upon categorical imperatives (Kant, 1997), presents an insight into the moral boundaries that ought to delimit financial behaviour.

Meanwhile, Nietzsche's theory of the will to power and his critique of herd morality (Nietzsche, 1989) indicate how groupthink and irrational exuberance can fuel destabilizing market trends—a notion captured in behavioural economics studies of market psychology (Kahneman, 2012; Akerlof & Shiller, 2009). The dynamic between moral responsibility and individual assertion explains why financial markets fluctuate between stability and turmoil, governed by both ethical constraints and disruptive forces.

Financial crises often originate in failing to account for ethical and psychological factors in decision-making (Thaler & Sunstein, 2008). A Kantian approach would favor regulatory frameworks guaranteeing moral integrity of markets (Ulrich, 2008), preventing speculative excesses and fostering economic justice (Sen, 1987). Nietzsche's critique, on the contrary, suggests that crises may be a result of systemic stagnation and complacency of institutions and that they require radical changes and creative destruction (Nietzsche, 1978; Schacht, 1994).

By adopting a more holistic approach, policymakers can balance ethical responsibility with the need for innovation, crafting interventions that navigate the tension between stability and progress. This aligns with Polanyi's (2002) argument that economic systems are embedded within moral and cultural frameworks and that crises often arise when markets become disembedded from these social structures. North (1990) similarly emphasizes the need for institutional change as part of long-term economic adaptation.

Policymaking has also been able to benefit greatly from this broader understanding of economic behaviour. Traditional economic policy assumes predictable responses to incentives, but human behaviour is far more complex. Kantian ethics supports that policymaking should be informed by moral imperatives that improve long-run sustainability and social welfare (Sandel, 2010). Nietzschean thought, by contrast, warns against paternalist policy that suppresses individual agency and creativity in favour of a more dynamic, existential stance toward economic actors (Nietzsche, 1989; Boltanski & Chiapello, 2005).

A synthesis of these positions allows policy to encourage responsible economic behaviour while fostering the dynamism required for growth and transformation (Brynjolfsson & McAfee, 2014). This philosophical model of economic decision-making transcends the naive assumptions of rational self-interest, including the subtleties of moral consideration, cognitive constraints, and social impacts.

By combining Kant's moral imperative and Nietzsche's existential strength, this framework provides a denser, more complicated approach to describing economic action. Its uses range from correcting market failures, pre-empting financial crises, and informing better policy-making - particularly in a world where automation and algorithmic rule-making are increasingly shaping the contours of life (Zuboff, 2019; Floridi, 2013), and where conventional forms of human agency are being reconstituted.

5. Concluding remarks

This study has problematised the limitations of the *Homo Economicus* model, illustrating that economic behaviour is not necessarily driven by rational self-interest but is strongly conditioned by cognitive biases, moral imperatives, and social structures. By synthesising evidence from behavioural economics, psychology, and philosophy - in particular the theoretical foundation laid by Kant and Nietzsche - this article outlines a more unified paradigm for understanding decision-making in the real world.

Kant's emphasis on moral duty and the role of ethical deliberation, along with Nietzsche's critique of rationality and his exploration of human desires, provides a philosophical grounding for going beyond the narrow horizon of utility maximization. The interdisciplinary approach not only challenges the assumptions of mainstream economics but also offers a more nuanced framework for studying economic behavior. The proposed framework addresses some of the most fundamental questions in contemporary economics.

The study initially highlights the implications of cognitive biases and ethical dimensions for policy failures, arguing that economic policies ought to accommodate human irrationality and moral reasoning rather than being founded on presumptions of perfect rationality. Second, it sheds light on financial instability by examining how herd behaviour, overconfidence, and loss aversion - grounded in psychological and philosophical understandings of human nature - intensify market crises, with a view to advising more effective regulatory strategies. Third, it is aligned with the growing emphasis on ESG (Environmental, Social, and Governance) and ethical investing that calls for the integration of moral and social values in economic models, a position to which Kant's ethical theory and Nietzsche's critique of instrumental reason would subscribe. While this study offers a solid theoretical foundation, it also acknowledges its limitations and hints at prospective areas of future research.

The proposed model, though conceptually consistent, must be empirically verified through controlled experiments, field experiments, and real-world data to ascertain its predictive validity and mundane relevance. The rapid evolution of artificial intelligence and algorithmic trading adds complexity to economic decision-making—raising questions about human agency, moral responsibility, and the interplay between technology and behaviour—while the research's focus on Western economic systems may limit its applicability across diverse cultural and institutional contexts worldwide. The expansion of this model to incorporate cross-cultural perspectives would increase both its relevance and theoretical nuance. By crossing economics, psychology, and philosophy, this multidisciplinary approach not only provides critiques of mainstream approaches but also provides a more realistic and actionable description of economic behaviour.

Finally, the framework challenges scholars and practitioners to move beyond the constraints of *Homo Economicus*, embracing a more sophisticated, integrated approach that has room for the complexities of human choice. In doing so, it paves the way for more effective policy, sounder financial systems, and more ethically rooted economic activity, contributing to scholarship and practical problem-solving alike.

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