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NARRATIVE ECONOMICS: THE POWER OF STORIES IN SHAPING ECONOMIC DECISIONS

Predicting human behaviour has always been a paramount mission in the realm of economics, which is usually associated with complex models relying heavily on numbers and equations. However, there is an underlying force that dramatically shapes our economic decisions: narratives or stories. The discovery of narrative influence on economic decisions has ushered in a new field of economic research called “Narrative Economics”.

The aim of this paper is to identify the correlation between narratives and economic behaviour as well as to analyze the key findings of behavioural experiments devoted to the impact of narratives.

Be it a market or a product, anything is followed by a narrative, in other words, a story we tell one another. Narratives serve as frameworks that allow us to understand complex information and deal with challenging decisions. Howsoever rational stories may be, and whatever facts they are based on, they often contain elements of emotion, bias, and personal experiences, shaping our perceptions and influencing our choices. By the same token, stories frequently have a richer context and cause more emotions, which leads to them being memorized 22 times better than bare facts, according to Stanford professor Jennifer Aaker. Either a story is in the form of a 140–character tweet or a book – they shape how others see you, making them a tool of power [1].

It is a narrative that may explain unreasonable prices which buyers are willing to pay for items once owned by celebrities, whether it’s a paper napkin used as Scarlett Johansson’s handkerchief and sold for $5,300, or Liz Taylor’s jewellery collection, auctioned off for a record $116 million, which is approximately 2 times bigger than its estimated value.

Another vivid example of narratives influencing behaviour has also been observed among patients. Those, who watched videos about diets and compliance with the treatment regimen followed the instructions and adapted their lifestyles to it more often than ones who were prescribed the usual treatment without accompanying stories.

Stories may form naturally over the course of time, or may be created purposely. They usually cause emotions, a strong bond with a particular subject, which makes it even more valuable for an ultimate consumer. Thus, the dependence of goods value on a narrative can be easily established. This phenomenon has been confirmed by diverse experiments conducted by different researchers.

According to the study of Professor Paul Zak, one of the pioneers of neuroeconomics, neuromanagement and neuromarketing, the human brain synthesizes oxytocin (the so-called hormone of love and affection) when a person trusts other people. Oxytocin intensifies prosocial behaviour: when people hear impressive stories, their oxytocin level increases, and so does their willingness to behave in a prosocial way [1].

Marketers have been acutely aware that narratives create an emotional connection between the consumer and the brand winning the loyalty of consumers and increasing sales. For instance, a study showed that buyers are willing to pay 5% more for a hotel room if the offer is accompanied by a story about someone who has stayed there, and 11% more for a painting if its description includes a story about an artist. Another study has found that stories affect even the sensory perception: wine from the same bottle might taste better if it is reported to be from a region where good wines are made, and less tasty, if it turns out to be from a region that cannot boast a good winemaking reputation.

One of the most enlightening experiments in the field of narrative economics was conducted by Rob Walker and Joshua Glenn, who bought hundreds of cheap trinkets at flea markets, garage sales, and commission stores, and then asked professional writers to come up with a story for each. The following step was to put those items on eBay, accompanied by diverse narratives. According to Walker and Glenn’s hypothesis, narratives can give objects a new emotional meaning, turning them into meaningful objects. The hypothesis of the experiment was totally confirmed: after spending about $129 on purchases, the experimenters received more than $3,600, which is 28 times more. The value of items rose to ten times the original price: for example, an ashtray bought for $2.99, which was accompanied by a story written by William Gibson, was sold for $101. Sales income was donated to the authors of the descriptions. After the first experiment, the initiators held several more rounds of online sales of "significant objects with stories", and then published a book about the project, including a hundred selected stories about little things that became significant [2].

Summing everything up, the difference between a common item and a valuable one is a good story. Narratives fill subjects with a “spirit”, making it emotionally significant and therefore more valuable. Narratives have a dramatic effect on people’s behavior and decision-making, so the field of research is becoming quite promising for modern economists.

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