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**JEL Classification: O24, O14**

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## **NATIONAL TRADE AND HOSPITALITY INDUSTRY IN PANDEMIC TIMES: BEHAVIORAL ECONOMICS ASPECT**

*Received 15 June 2020; accepted 19 June 2020; published 23 June 2020*

**Abstract.** *The purpose of this study is the further identification of different aspects of the further development of the National Trade and Hospitality Industry in the context of new economical, psychological, and social conditions.*

*It was found, that the real situation in Ukraine is much worse than official statistics available from national governments. All possible impact on the global economic environment will be much more sophisticated than only simple short-term reducing economic activity. Media are sending a strong message for potential clients and investors of the Hospitality Industry, and label it as “The danger’s territory”.*

*Extrapolation and systematization risk factors were performed from different sources. It was concluded that the industry should begin developing a communicative strategy and informational company based on the behavioral psychology of pandemics with unification and standardization of all business processes for reducing risk factors.*

**Key words:** *national trade, hospitality industry, COVID-19 era, communicative response, behavioral economics of pandemics.*

**Reference** to this paper should be made as follows: Plaksiienko, V.; Chyrychenko, Y.; Dzhakheidr, E. A. R. (2020). National trade and hospitality industry in pandemic times: behavioral economics aspect. Economics and Finance, Volume 8, Issue 2, 11-18.

### **Introduction**

At the beginning of our work, we need to state, that this article represents the second part of the studies. The first part, the article: “Hospitality Industry: Behavioral Economics And Psychology Of Communication In Covid-19 Era.” has been accomplished in March 2020, then the deadly COVID-19 outbreak already hit China and started to spread throughout the Global World. According to WHO disease outbreak is the occurrence of disease cases in excess of normal expectancy [12]. The significant resonance and public attention to this thread were grown exponentially from the beginning of 2020 year. Economically speaking the new coronavirus has become a short and long term factor, which in a worst-case scenario can trigger a

global economic crisis, financial collapse, and large-scale bankruptcy. Although these negative perspectives are very serious and disturbing enough, we will focus our attention on the principal impact of such a pandemic on the Ukrainian national economic environment, the National Trade, and Hospitality Industry.

### **Literature Review**

World and national literary sources were used as a basis for the research. For purposes of properly representing an expert's assessment, expectations, and forecast, and also for modeling informational environment from a position of an external observer, we can mention only very few Worlds news article's titles, from hundreds or possibly thousands, thus that become available at the time of writing the paper:

The Telegraph: "Coronavirus impact will be bigger than trade war";

South China Morning Post: "Forget Sars, the new coronavirus threatens a meltdown in China's economy";

The Street: "With nearly 70 000 infections worldwide, coronavirus continues to baffle experts";

ABC News: "Coronavirus has a second wave of economic terror, disrupting business supply chains and revenue";

The National Interest: "Coronavirus proves one thing: China's rise is built on quicksand";

Business Stuff: "Coronavirus: Hundreds of tourism jobs lost and fears more at risk" and higher. ;

CNN: "Why stocks keep moving higher. And higher. And higher." (Why do stocks continue to rise in the face of anxiety, out the coronavirus?);

Zero Hedge: "Tankers, Tankers. Everywhere!"-Virus causes historic' Traffic jam' across Asian supply lines";

Barron's: The Dow Dropped 270 Points Because Coronavirus Is Spreading Outside of China;

Reuters Singapore: Dollar dominates as investors dump yen, Asia currencies on coronavirus spread;

CNN: Coronavirus outbreak to cost airlines almost \$30bn

Bloomberg Opinion: The Economic Hit From Coronavirus Is All in Your Mind (Psychology can be more powerful than facts when it comes to the impact of an epidemic.)

As we can see, the widespread concern about damage to the world's economy is based not only on simply economical factors, such as trade restrictions or possible damage for the workforce. In the first place with this informational environment going psychological factors (phobias and fears) group and mass psychological factors (different demonstration of hysterical or panic behavioral, racism) and different political and behavioral restrictions (travel bans and other restrictions).

Changing the focus of view and moving it to the national field:

<https://voxukraine.org/>: Impact of COVID-19 on Global Economy and Ukraine's Foreign Trade [11];

<https://www.kmu.gov.ua/>: Denys Shmyhal announced the Program of Government to recover from the economic crisis as a result of coronavirus pandemic;  
<https://www.wilsoncenter.org/>: Projected Impact of COVID-19 on Ukraine's Economy;  
[www.oecd.org](http://www.oecd.org): THE COVID-19 CRISIS IN UKRAINE;  
[www.me.gov.ua](http://www.me.gov.ua): "Ukraine in 2020-2021: Aftermath of the Pandemic" Consensus Forecast;  
<https://bank.gov.ua/>: Ukrainian Economy Slowly Recovering from Coronavirus Crisis; Price Growth to Accelerate – NBU Inflation Report;  
<https://kpi.ua/>: The COVID-19 pandemic in Ukraine: regional context and short-term forecast;  
<https://mfa.gov.ua/>: MFA of Ukraine Q&A: CORONAVIRUS (COVID-19) Quarantine Measures, Entering Ukraine, Obtaining Consular Support;  
<https://www.washingtonpost.com/>: Ukraine's citizens worry about covid-19. And they still have to worry about the war.;  
<https://www.nordeatrade.com/>: Ukraine: Economic and Political Overview;  
<https://en.hromadske.ua/>: The New Great Depression: Consequences of Coronavirus for Ukraine and the World;  
<https://rpr.org.ua/>: COVID-19 Pandemic and Its Immediate Impact On Ukrainian Economy  
<https://tradingeconomics.com/>: Ukraine Interest Rate.

## Methods

From the perspectives of our further research we will consider the National Trade and Hospitality Industry affected by different factors of the epidemic in two oblivious ways:

1. First is the direct impact of economical and much more material factors. These types of influences are historically predictable, reasonable, and understandable. Repeatedly using different economical and mathematical models with large-scale databases, scientists all over the World and different experts are making forecasts and analyzing different aspects of the National Trade and Hospitality Industry.

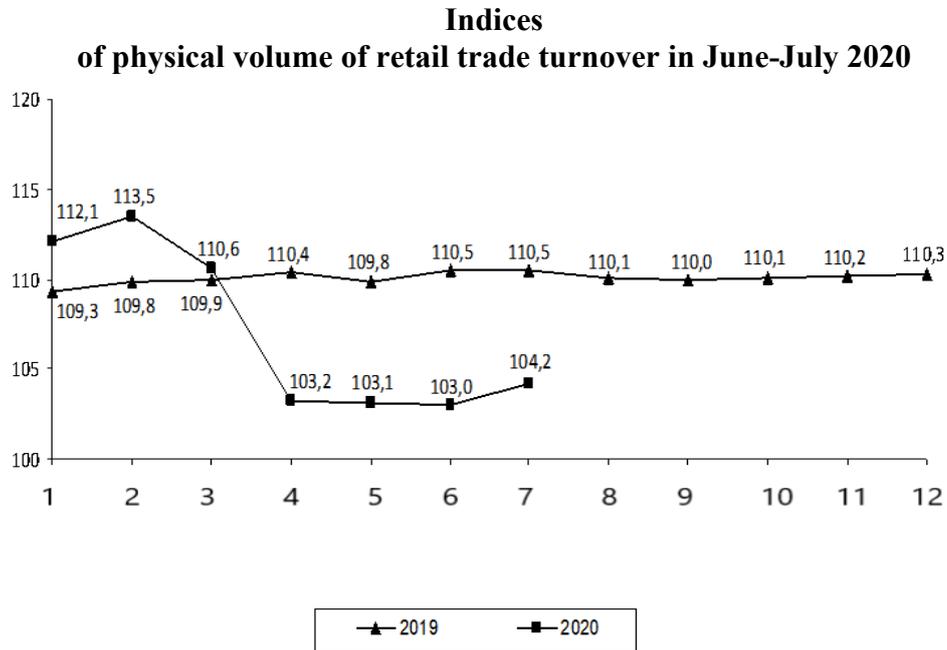
2. Second factor's family - clear reasonable and sometimes unreasonable behavioral psychological factors. We should declare, that under such factors we are understanding a non-material and sometimes non-rational impact on National Trade and Hospitality Industry, such as mass panic or psychosis, phobias, and so on...

From these perspectives, the main aim of our work is systematization and further improvement of some basic elements of psychological and economical communicative strategy in the National Trade and Hospitality Industry.

## Results

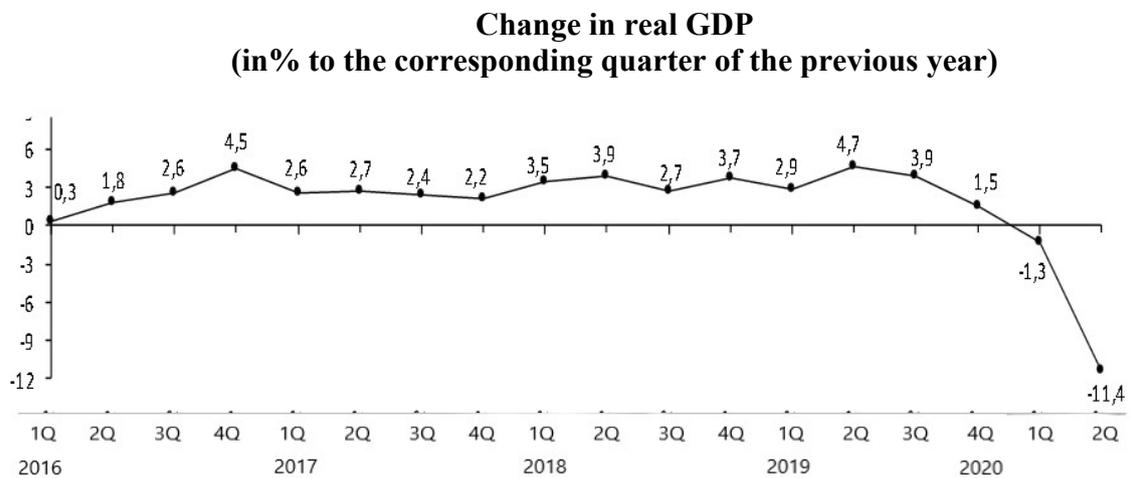
As we can see, two of the represented groups of factors - economical and psychological are very similar by nature. For example, from the first one of point of view, production capacity is declining as people fall ill, self-isolate at home as a precautionary measure or at the request of the authorities, and the government closes

bars, restaurants, theaters, sports and music facilities [11]. But these factors can not simply be socially accepted by themselves as only an informational message. Why? Because people don't have the ability to accept any information without an emotional signature.



**Figure 1. Indices of physical volume of retail trade turnover in June-July 2020**

Source: <http://www.ukrstat.gov.ua/>



**Figure 2. Change in real GDP (in% to the corresponding quarter of the previous year)**

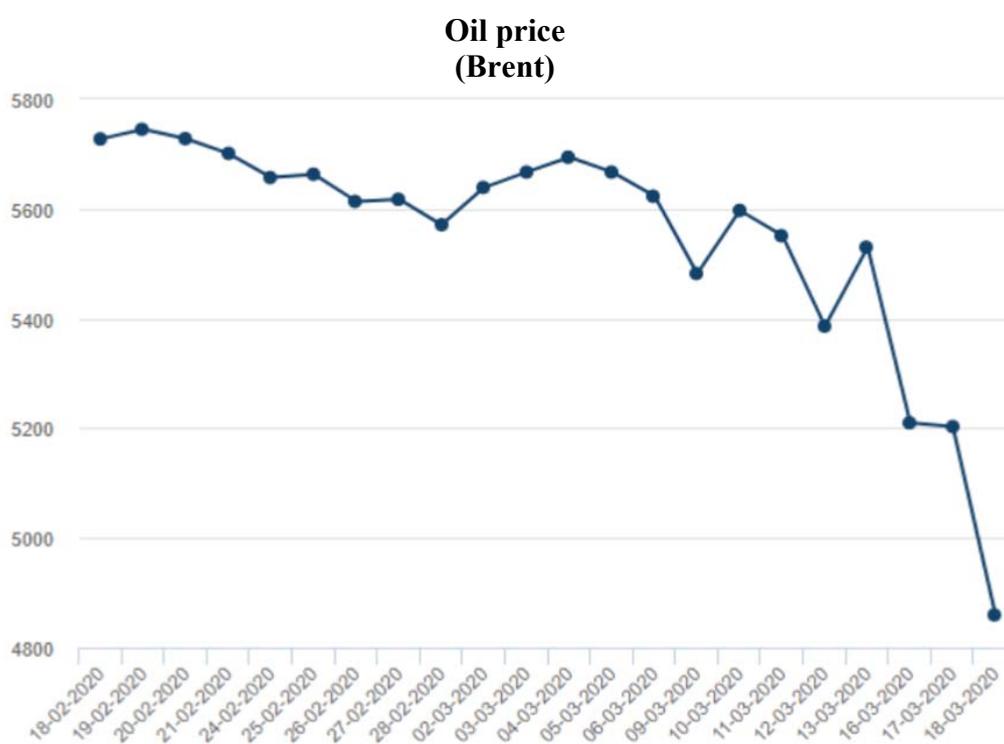
Source: <http://www.ukrstat.gov.ua/>

With this context, we consider as a very important factor of this cognition not only emotional perception but their cognitive distortions, assuming, what cognitive biases are systematic patterns of deviation from the norm and rationality in judgment.

According to Wikipedia, they are often studied in psychology and behavioral economics.

In this case, the National Trade and Hospitality Industry have some trends, linked to national pandemic dynamics, that need this sort of explanation. And we don't know exactly, which part of these changes can be explained with economical or psychological factors. For example, Figure 1. represent Indices of physical volume of retail trade turnover in June-July 2020, Figure 2. Change in real GDP (in% to the corresponding quarter of the previous year).

Ukraine is also an exporter of primary commodities, such as metals, and the price for them is likely to fall significantly due to falling demand in world markets. Figure 3 shows that the price of copper has already fallen by 16 percent in the last month alone. Prices for iron and steel are likely to have the same trend. National Trade and Hospitality Industry are also experiencing this declining trend.



**Figure 3. Oil price (Brent)**

*Source: Fred*

After extrapolation and systematization from different sources risk factors in the Hospitality Industry, we are having the next list [12]:

1. The infrastructure of Hospitality Industry (hotels halls and transportation units for example), often are closed and crowded. In these conditions sometimes are difficult and even impossible maintain social distance due to objective reasons. It is not an imaginable and absolutely real thread for health and even lives of travelers, guests and staff of Hospitality Industry which are cosign deep psychological impact on potential clients of the Industry. "People who are highly anxious about being infected typically ho to great lengths to protect themselves. This may involve

avoidance of infection-related stimuli, including people, places, and things associated with disease”;

2. The guests of Hospitality Industry in such stress conditions as current pandemic situation can not evaluate properly and differentiate specific Hospitality Industry risks;

3. The staff working in Hospitality Industry were not notified of factors that may increase the risk and outbreak and were not trained to work with such pandemic conditions. Working on the “first line” for this staff can cause psychotic experiences, be traumatizing and even contribute to symptoms of PTSD;

4. The hole infrastructure of Hospitality Industry was not designed to the standards for isolation against infectious respiratory disease, nor are they equipped with special devices or equipment;

It is difficult and sometimes impossible for clients (guests) to accept and cooperate with self-isolation measures for cutting off the respiratory infection route in time.

As we can see, the general dynamic of the development of the National Trade and Hospitality Industry economical process with the synergic impact of all economical and psychological factors has simultaneously a very similar and very disturbing general trend.

From different parts of the National Trade and Hospitality Industry process, using a recent set of publications, we are choose cognitive biases, that can trigger the general process.

These mental phenomena need a scientific explanation.

## **Discussion**

Pandemic Agent detection is the inclination to presume the purposeful intervention of a sentient or intelligent agent in situations that may or may not involve one. As result, we can have social actions (Anti-quarantine actions ) and deepening negative trends.

Proposed actions - explanation of the probabilistic nature of the pandemic

The ambiguity effect The effect implies that people tend to select options for which the probability of a favorable outcome is known, over an option for which the probability of a favorable outcome is unknown.

Proposed actions - cluster analysis of a set of probabilities all kinds of possible risk factors for different pandemic scenarios and educational work in this direction.

A big pool of Availability biases The availability heuristic operates on the notion that if something can be recalled, it must be important, or at least more important than alternative solutions that are not as readily recalled.

Confirmation bias is the tendency to search for, interpret, favor, and recall information in a way that confirms or supports one's prior beliefs or values.

Extension neglect is a type of cognitive bias that occurs when the mind tends to ignore the size of the set during an evaluation in which the size of the set is logically relevant.

Proposed actions - “Fake News” detection and refutation with educational work in this direction.

### Conclusion

In these pandemic times, the development of new approaches such as radical measures with social distancing can be temporary but some changes can stay permanently. In the time of this fundamental crisis, the industry should begin developing a set of approaches for the unification and standardization of all business processes for reducing risk factors. Communicative strategy with such development should be a reliable informational company based on the behavioral psychology of pandemics.

Pandemic Agent detection - explanation of the probabilistic nature of the pandemic

The ambiguity effect - cluster analysis of a set of probabilities all kinds of possible risk factors for different pandemic scenarios and educational work in this direction.

A big pool of Availability biases, Confirmation bias Extension neglect - “Fake News” detection and refutation with educational work in this direction.

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