

# Social Media and Herding: How do they Affect Rationality and Utility?

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**Abstract:** This article investigates the influence of social media on the rise of Vape Culture among youth, drawing parallels to historical instances of collective irrationality such as the Dutch tulip mania. With 4.2 billion mobile users on social media platforms and a significant portion of teenagers attributing their initiation into vaping to peer pressure and social media guidance, the study explores the impact of persuasive advertising and influencer-driven trends. It also delves into the psychology of decision-making, as Amos Tversky and Daniel Kahneman's research reveals how individuals may exhibit risk-seeking behavior when faced with choices between vaping and smoking. The article highlights the potential hidden negative utility of vapes and the role of information failure in sustaining their popularity. Additionally, it discusses the moral incentive perceived by consumers in choosing vapes over cigarettes due to lower health risks and environmental concerns. Overall, this research underscores the complex interplay of social media, consumer behavior, and information dissemination in the context of vaping, shedding light on the challenges of addressing the potential health hazards associated with this trend.

**Keywords:** Social media, Vape Culture, collective irrationality, persuasive advertising, decision-making psychology, hidden negative utility, information failure, moral incentives, health risks, environmental concerns.

## 1. Introduction

Social media sites are currently accessed by 4.2 billion people via their mobile device. Facebook user's check their account more than 5 times a day and 74% of marketers believe that social media including Facebook, Google+, Twitter, etc., are vitally important for their corporate and product strategy. [1]

Whether picking a president or an automobile, economists think that individuals are rational in that they will always act in a way that will provide the most economic benefit. Karl Polanyi, an economist of Austrian descent, flipped this notion on its head. He said that the important thing about people is that they are social beings submerged in a "soup" of culture and tradition. It is this soup that is the nourisher of economic life, he claimed, not the profit motives of calculating individuals. In today's world this "soup" has become *social media*.

In 1841, the Scottish journalist Charles Mackay published "Extraordinary Popular Delusions" and the "Madness of Crowds", a classic psychological study of markets and the irrational behavior of people acting in "herds." This research would attempt to find relevance to this theory in terms of social media and its influence on "Vape Culture".

### Tulipomania and Bubbles

One of the earliest and most well-known examples of an economic bubble is the Dutch tulip mania of the 1630s. Tulips from Constantinople gained popularity among the rich in Holland and Germany at the start of the 17th century, and soon everyone desired them. The Dutch middle class developed an obsession with collecting unusual types because tulips were thought to confer wealth and sophistication on their owners. By 1636, there was such a high demand for unusual tulip species that they were sold on Amsterdam's stock exchange. Many people experienced instant wealth. Everyone, from noblemen to maidservants,

flocked to the tulip markets, believing that the enthusiasm for tulips would never fade, as though a golden bait had been dangled before them alluringly. But when the rich stopped planting tulips, their appeal diminished, and people realized the folly could not continue. The price of tulips fell, selling got more frenetic, and confidence was at an all-time low. It was devastating for people who had taken out loans to make investments.



### Social Media and Youth Vape Victims

In a survey comprising of teenagers addicted to Vape, the results were suggestive of two main categories. Firstly, 54% teenagers answered peer pressure forced them into smoking. In addition, 34% answered that social media showed them the ropes to purchase vape. Both the previous answers were examples of persuasive and informative advertising. In response to a second survey, 76% answered that "*Social Media based Peer Pressure through Influencers*" was a primary reason that introduced them to vapes. In a historical repeat of events, consumer rationality is seen to falter due to "herding". The collective frenzy of crowds has established a "fad" among youngsters (16-21 years). Mackay's hypothesis was that crowds acting in a collective frenzy of speculation can cause the prices of commodities to rise far beyond any intrinsic value they might have. In this case, the utility of vapes have risen uncontrollably over the past 5 years.

Consumer rationality is challenged here, as consumers might place a higher utility on vapes than their true utility. Vapes might have “*hidden negative utility*”.

### Vape over Cigarettes?

“One may discover that the relative attractiveness of options varies when the same decision problem is framed in different ways.”

- Amos Tversky

Amos Tversky and Daniel Kahneman found that people commonly violate economists’ standard assumptions about behavior, particularly when consequences are uncertain. Far from acting with rational self-interest, people were found to be affected by the way a decision is presented. Economists had long understood that people are often “risk-averse.” This risk-seeking pattern maybe seen in people when choosing between Vapes and Cigarettes. Tversky and Kahneman found that individuals are risk-averse when facing gains but risk-loving when facing losses: the nature of individual preference seems to change. Their work showed that people are “loss averse,” and so are willing to take risks to avoid losses, where they would not be willing to take risks to gain something. This pattern was exploited by firms selling vapes. Vape brands were marketed as “*safer than cigarettes*”. When a non-vaping audience were asked “*if they would start vaping?*”,majority responded “*no*”. However, in a second survey when the same group of people were asked if they would rather smoke cigarettes or vape, 89% responded “vape”. A whopping two-in-three members who answered “vape” stated that this was due to the *comparative* lower health risk. A minority also stated that “vapes” were less pollutive to the environment.

## 2. Conclusion and Evaluation

“Herding” breeds collective insanity. Due to information failure in an economy, the hidden health hazards involved in vaping might remain hidden. This would secretly keep the marginal utility for the consumers consuming vape relatively high. This scenario gives birth to a “double-utility” situation. Consumers would have a perceived utility (which remains high due to the addictive nature) for vapes, and there would be an actual utility (which would be low due to potential health hazards). Moreover, the use of social media campaigns that understate the health hazards involved in using “vapes” increasing the prevalence of information failure. In addition to their addictive nature, consumers of vape have a comparative moral incentive to use vape over cigarettes. The comparatively lower environmental and health hazards, *gaslights* consumers into believing that they are minimizing negative consumption externality.

<sup>1</sup>Infographic: Social Media Stats 2013: Digitalbuzzblog.com

- Prospect Theory: An Analysis of Decision
- The Great Transformation (1944)
- The Gift by French sociologist Marcel Mauss
- Trobriand Islands and *kula* system by Polish anthropologist Bronislaw Malinowski
- Extraordinary Popular Delusions by Charles Mackay
- Madness of Crowds by Charles Mackay
- Famous First Bubbles by Peter Garber