

Title of the article: Coronavirus: The psychology of panic buying

Source of the article: BBC Worklife

<https://www.bbc.com/worklife/article/20200304-coronavirus-covid-19-update-why-people-are-stockpiling>

Date of access of article: 30th September 2020

Date the article was published: 4th March 2020

Date the commentary was written: 28th October 2020

Word count of the commentary: 799

Unit of the syllabus to which the article relates: Microeconomics

Key concept being used: Scarcity

Article

Coronavirus: The psychology of panic buying

Amid the coronavirus outbreak, people are flocking to supermarkets worldwide – but are they simply preparing, or irrationally panicking?

Last Saturday afternoon, Kristina Moy decided to swing by her local supermarket in the US city of Seattle to pick up some weekly groceries and supplies for her son's upcoming baseball tournament.

What started as a quick errand turned into a three-hour ordeal, navigating checkout lanes packed with hundreds of shoppers stocking up amid the outbreak of coronavirus.

Moy, a resident of Washington state, was well aware Governor Jay Inslee had that day declared a state of emergency following the announcement of the first US death related to Covid-19.

"For the most part, people were understanding and relatively calm. But patience was definitely starting to grow thin," says Moy, who tweeted images of long queues and people with trolleys loaded with bottled water.

"Toilet paper and milk were flying off the shelves faster than I could count, and carbonated water was just about empty."

Moy isn't the only one to experience long queues and empty shelves. Mass demand for rice and instant noodles in Singapore prompted Prime Minister Lee Hsien Loong to assure the public there was enough to go around. In Auckland, New Zealand, supermarket spending shot up 10% last Saturday compared to the same day a year ago. And shoppers in Malaysia wanting to pad "pandemic pantries" – grocery hoards to fill people's kitchens until the crisis dies down – have driven an 100% increase in weekly hand sanitiser sales. (All of those places have confirmed cases of Covid-19.)

These are the real-world consequences of panic buying – a phenomenon that happens in the face of a crisis that can drive up prices and take essential goods out of the hands of people who need them most (such as face masks for health workers).

So why do people do it? Experts say the answer lies in a fear of the unknown, and believing that a dramatic event warrants a dramatic response – even though, in this case, the best response is something as mundane as washing your hands.

The downsides of panic buying

With events like looming natural disasters, such as a hurricane or flood, people frequently stock up with emergency supplies.

"It is rational to prepare for something bad that looks like it is likely to occur," says David Savage, associate professor of behavioural and microeconomics at the University of Newcastle in Australia, who's written about the rationality behind stocking up in a crisis. However: "It is not rational to buy 500 cans of baked beans for what would likely be a two-week isolation period."

This type of behaviour can make shortages worse – like, for example, when Hurricane Harvey hit oil-rich Houston, Texas in 2017. Precautions taken by refineries, as well as eventual flooding, temporarily stalled the supply of petrol and diesel in the US. That was expected, but the problem got worse when people flocked to petrol stations and panic-filled their cars, contributing to a two-year high in petrol prices.

Irrational stockpiling can also lead to price gouging, says Steven Taylor, a professor and clinical psychologist at the University of British Columbia, and the author of *The Psychology of Pandemics*. "If the price of a roll of toilet paper is tripled, that's seen as a scarcer commodity to acquire, which can lead to anxiety," he says.

There have been plenty of examples of price gouging in response to Covid-19 – reports have found a 10-pack of face masks costing more than \$100 on ecommerce sites such as eBay and Etsy. These high prices have caused companies to put measures in place to stop speculators taking advantage of a spike in demand. On Tuesday, for example, Amazon announced it removed over a million basic-needs products for misleading claims and price gouging. British pharmacy chains Boots and Lloyds Pharmacy both announced on Tuesday that they would restrict sales of hand sanitiser to just two bottles per customer.

The supply of face masks has also been strained. The US government has recommended people stop buying them – not only because surgical masks aren't sufficient protection from Covid-19, but because there may not be enough for healthcare professionals who need them to do their jobs.

The fact that supply-chain juggernaut China is at the centre of the spread of coronavirus has exacerbated panic buying, says Ben Oppenheim, senior director at San Francisco-based infectious disease research firm Metabiota.

"A lot of the narrative has focused on the disruption of global production and supply chains. There's uncertainty about whether we'll see shortages in medicines, masks and other consumables, and that uncertainty needs to get clarified and addressed," he says.

The psychology of panic buying

There's a clear difference between disaster preparation and panic buying, says Taylor.

In the case of a hurricane or flood, most people have a fair idea of the items they may need in the event of a blackout or a water shortage. But since it's unclear at this stage just what effects Covid-19 will have, there's a lot of uncertainty driving this spending.

Panic buying, Taylor says, is fuelled by anxiety, and a willingness to go to lengths to quell those fears: like queueing for hours or buying way more than you need.

We've seen this before throughout history. Back in 1962 during the Cuban missile crisis, when nuclear war seemed imminent, American families filled their basements with enough canned goods and bottled water to survive an atomic blast.

Then there was Y2K at the turn of the millennium. Amid fears that a catastrophic glitch when computers' internal clocks reset to "00" for the year 2000 could crash global markets or send missiles flying, people didn't just hoard lots of nonperishables and bottled water, but money, too – in 1999, the US Treasury was ordered to print an extra \$50bn in the expectation that people would withdraw and stockpile cash.

Panic buying helps people feel in control of the situation, experts say.

"Under circumstances like these, people feel the need to do something that's proportionate to what they perceive is the level of the crisis," Taylor says. "We know that washing your hands and practicing coughing hygiene is all you need to do at this point."

"But for many people, hand-washing seems to be too ordinary. This is a dramatic event, therefore a dramatic response is required, so that leads to people throwing money at things in hopes of protecting themselves."

Oppenheim agrees. "It's probably true that panic buying is ultimately a psychological mechanism to deal with our fear and uncertainty, a way to assert some control over the situation by taking an action."

Savage also points to another principle at play: loss aversion. It's the idea that you don't want to miss out. "Losing \$100 feels worse than winning \$100," he says. "If we later realise that we needed the toilet paper and we didn't get it when we had the chance, we will really feel bad."

Finally, herd mentality also adds to this behaviour. The experts say the fact that panic buying is happening at all can prompt people to participate.

"Panic buying is getting excessive play in social media and news media, and that amplifies the sense of scarcity, which worsens the panic buying," Taylor says. "There's these snowball effects of a further increased sense of urgency."

"If everyone else on the Titanic is running for the lifeboats, you're going to run too, regardless if the ship's sinking or not," he says.
A natural reaction:

Some researchers think the "panic" label used can be a bit misleading, however, and that true "panic" is rare, reserved for situations where death is imminent.

"Panic is a subjective, emotional state, and mostly what we can observe is the behaviour," says Oppenheim. "Maybe someone reads articles or a couple of tweets about supply chain disruptions in China and mask shortages in Hong Kong, and then makes a very reasoned decision to stock up on masks just in case. All we can infer from the purchasing is the timing, so it could look panicky even if it's well thought through."

Joffe, a

professor of psychology at University College London.

"In order to face the threatening unknown, people draw on what they already know about

seemingly similar threats," she says. She mentions how some have linked Covid-19 to SARS, a different coronavirus which generated global headlines of its own back in 2003. She

points

out that there were fewer cases, but more fatalities proportionately. "So, links to SARS would attenuate ~~عن~~ or ~~تقلل~~ dampen one's sense of risk. Others have linked it to the Black

Death, which, of

course, would amplify the sense of risk."

The critical ingredient is good information, Oppenheim says. "If we can address public fears

and uncertainty, we can potentially reduce panic and last-minute buying."

The alternatives to panic buying

A better plan than panic buying would be to be prepared all year round for possible emergencies or crises. It's also worth keeping everyone else's needs in mind as these types of

events unfold: stock up on what you and your family need, but avoid the urge to hoard

enough supplies to fill a doomsday bunker. Because when individual panic buying plays out

collectively, that's what can lead to price gouging, or low supplies for high-risk individuals

who need things like face masks more than the general population does.

It's also worth noting that quality sources of information are always vital for avoiding

rumours and falsities. In Japan, social media rumours erroneously claimed toilet paper supplies were running low as China would no longer export these products.

To stop

panic buying, local officials and industry associations had to make statements reminding

people that almost all toilet and tissue paper was locally manufactured and there were plenty of supplies.

"Anxiety needs to be acknowledged and managed," Joffe says. "We do not want

complacency, but high levels of anxiety are not useful to prepare ~~عن~~ or ~~تقلل~~ prevent catching it."

Perhaps, if you're feeling compelled to panic buy, it might be worth asking what it is you're

really afraid of. "If people are really getting distressed and anxious about this, then perhaps

they should seek out help from a mental health professional," Taylor says.

As for the shoppers on the ground who are just trying to do their weekly family grocery run,

Kristina Moy in Seattle says she learned the hard way how to deal with the throngs of panic-shoppers in her community.

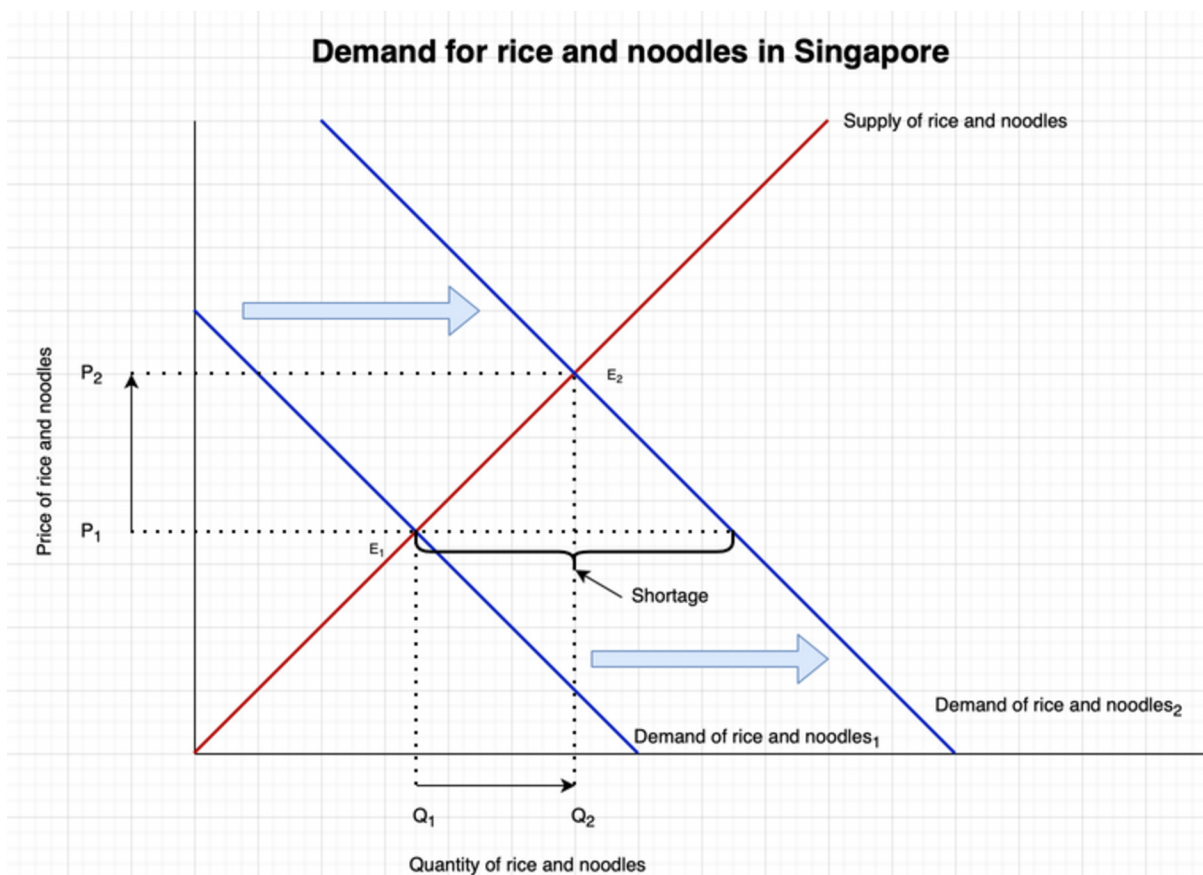
“Next time, I would definitely wait for the crowds to die down or simply order my supplies from Amazon,” she says. “It was a three-hour experience I really don’t ever want to do again.”

Commentary

This article discusses the effect Covid-19 has on supermarket spending and how scarcity and the fear of it led to worsened shortages in the market. Since resources are scarce, no one is able to satisfy all their needs, affecting all stakeholders as everyone wants to maximise their utility. The pandemic resulted in sharp shifts of demand whilst supply levels took more time to adjust leading to an increase in prices or shortages of goods.

A reason for a price increase is that demand has heightened due to an increase in the number of consumers whilst supply has stayed the same.

An example of this issue happened in Singapore when rice and instant noodles saw a mass increase in demand due to the fears of Covid-19. Also, many were fear-hoarding these goods, worsening the effects of changes in price as more demand is created.



The diagram above depicts the increase in actual demand for this good. We can determine that the increase in demand for rice and noodles changes the actual demand as there are more people buying this good, a non-price determinant of demand. Even though more food isn't needed, consumers believe that they need irrational amounts of this good as they are in a crisis-situation, even if they are unable to consume it.

On the diagram, there is a shift from D1 to D2 in actual demand. If price stayed at P1, there would be a shortage, shown as the distance between the supply curve and the demand curve2 when price is at P1. This means that a new market equilibrium (E1 to E2) has to be

found so that supply and demand have the ability to be equal to each other to make sure that an excess quantity demanded does not happen. If the price didn't change, shortages would occur as producers would not be able to keep up with the excess quantity demanded of the good. This acts as a signal for producers to raise the prices to ration goods so that only those who can pay for them can get them, leading to a decrease in quantity demanded, subsequently, removing the shortage.

This article also suggests that errors in the economic normal standard of thinking occur. Usually, it is assumed that consumers always make rational decisions but recently, it has become apparent that this is not the case. Availability refers to the information that is most recently available to the consumer, even though it might not be the best or most correct information. In the 21st century, social media has shifted how consumers gain and use knowledge to make economic decisions. One might see a post that a potential supply disruption of face masks from China could occur and might decide to buy more face masks in fear of a possible shortage as they have bounded rationality, satisficing with the information they've viewed. However, shortages are negatively affected by this as unnecessary demand is created, meaning that producers are unable to supply enough. Another way consumers act irrationally is that they anchor irrelevant information they have, since new information is scarce, to make economic decisions. Since no one knew the course of the pandemic, linking it to previous pandemics seemed logical, like the Black Death. Doing this exaggerates the reaction a consumer has, leading to more dramatic decisions taking place resulting in a hoarding of necessities, further increasing the scarcity and demand of goods.

To evaluate, the main stakeholders affected by such a shortage are the consumers and producers. Unfortunately, the consumers are not benefitting from this shortage since prices will increase as producers can raise their total revenue. This results in a decreased purchasing power for the consumer as more of their income is spent on necessities like food, which cannot be substituted. On the contrary, if prices don't increase, there will be a shortage leading to queuing for consumers to purchase necessities as the level of supply simply does not meet its demand.



The effects of the pandemic are beneficial for the producer as the shortage regards food, which has price inelastic demand since food is a necessity for human life. The diagram above shows why food producers would benefit from a price increase. As illustrated, when moving from P_1 to P_2 , what the producer gains in total revenue (area B) is larger than what they would lose (area C). This shows that producers will increase their prices since their new total revenue is greater than before, meaning that they could benefit from this shortage, even if a surplus of their good occurs. Increasing the price of the good would also allow for proper rationing to take place, meaning that the shortage would diminish as those who can afford it, are able to buy it, and supply is capable in meeting the demand.