

CHAPTER 2

Theoretical Foundation and Literature Reviews

2.1 Asymmetric Information Theory

Asymmetric information is the crucial source of explanatory concept that underpins the achievements in information economics in describing and structuring the function of economic systems (Hawkins, Aoki, and Frieden, 2010). The emphasis is on the effects of asymmetric information and distribution of the information and how nations get information regarding the border conflict issue and culture of each other. According to Rosser (2003) which the letter was issued by the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel Prize regarding the development of asymmetric information, rewarding Akerlof in (1970) on markets for lemons, Spence (1973) on signaling in labor markets through education, and Stiglitz and Rothschild, (1976) on self-screening in insurance markets who have developed the concept and known as "information economics revolution".

Information is the crucial source for data analysis. Information asymmetry happens when the market participants do not equally share the information to each other in general, in the economics concept. Akerlof (1970) stated a shallow instance where the seller of used cars had more private information about the cars than the buyers. The information to learn and know more about the cars is to be collected through time. However, the buyer was always keen to acquire the car with the fair price plus consistency in terms of quality. This, as a result, could lead to the existence of the better quality cars due to the fair price of the car. This could turn out to be the same price to the buyer since the input of information was being digested made no different between the bad and the good car. Over all cases, the key component of the lemon market could be concluded that one side of the market is always better informed than others in all applications. The sellers know more about the car's quality than the buyers.

Shareholders know about the profitability less than the board members of the firms. Landowners have inferior information compared to the tenants about the harvesting condition and the effort of working conditions (Lofgren, Persson, and Weibull, 2002).

Later Akerlof (2002) argued in his Nobel address that asymmetric information ultimately led us to behavioral economics. There was a case that the buyer would select the good car; this is called as adverse selection problem, as a result this issue could lead to reduce the size of the market to go down because the average quality of goods is being valued indifferently. Based on Akerlof (1970), in the insurance market, adverse selection occurs when the good quality products in the market drop out and trading is the only low quality of the products in the market. Radner (1968) and Arrow (1974) stated that imperfect information can lead to incomplete contracts with resulting inefficiencies. With modern theory of information asymmetry in the market has been transformed the way of contemporary market functions. Today it has been known it as the economics of information through Joseph Stiglitz. Contextually, in this study, asymmetric information is perceived as respondents would know about other parties less than expected because there is incomplete information which they are unable to access to. There is a possible way to get better investigation is to inject the information to be complete one.

2.2 Bounded Rationality Theory

Simon (1955) pointed out that the theory of bounded rationality that it occurs when there are limitations on the existing information they have in their mind and cognition, also the limitation of available time to make decision. He considered as behavioral alternative of decision makers who have constraint optimization in choices. Decision makers, in fact, are capable to decide rationally, yet there are constraints restricted them from their decision outcomes, hence, they find alternative ways to make their final decisions. Primarily, it is an alternative development from rational choice theory which is generally interpreted as: humans are always naturally rational, especially in social and behavioral economics. It comes as the fact-based decision making. In rational theory, Albar and Jetter (2009) mentioned that mostly it depends on the broad use of mathematics and the use of logic models to represent decision conditions. One of the

greatest strengths of rational approaches is the thoroughness in the decision making. Theoretical framework in the progress of thinking and deciding helps to stimulate to identify answers and scale in making decision within the framework. Jones (1999) explained that bounded rationality is about how decision is being developed and made from discontent of comprehensive rational economics on decision models choice theory. It is assumed that outcomes are known and fixed and it has been defined by preferences, ideally from the models.

Albar and Jetter (2009) stated that usually outcomes in alternative decision-making procedures come up with two future assumptions: first of all, how decision makers make a guess for the future when he has experienced it. Secondly, the choice which has been made with the state of the world from their guess. Decision makers literally are recognized that they maximize their expected utilities and net profitability by sensing the most preferable choices. There are two main implications in this approach. Firstly, Decision makers determine the attitude with various mixtures of incentives. Secondly, actual decision maximizers have no learning curve due to the adjustment of incentives terms. Simon (1999), the founder of behavioral study of organization, and birth giver of bounded rationality proposed this approach to be studied in decision making organization and field.

Furthermore, Kahneman (2003) proposed the bounded rationality theory in economics literature as a model to overcome limitations from the rational agents. The principle of rationality can be analyzed as a useful tool in measuring human behavior in a relation with systematically task environment. There are numerous studies in human behavior in making decision from a large scale of social surveys, thus they have showed that there are restrictions in humans to form their choice. Bounded rationality is about experiencing in elaborating and dealing with complexities of problems during the processing information including restoring, retrieving, receiving, and transferring the information into cognitions. In other words, it is named as the study of behavioral decision theory how humans make their choices based on their behavior, contextually in

the social sciences. Intendedly, in this postulation, is known that humans are always rational in making their decision in accordance with their pre-existing knowledge as well as their own characteristics and complexities due to time. This set of fact is so-called nature of decision makers.

2.3 Limited Rationality Theory

Limited rationality theory, literally, refers to the information of respondents is limited which restricted their cognition as a completed one; however, they believe in themselves as rational people. Under circumstances, limited and bounded rationality theory are intrinsically alike due to certain contexts and situations. Asides from its similarity, limited rationality theory in behavioral economics, psychologically, refers to rational people which unconsciously restricted their cognition due to limited information that they are unable to access to. Harstad and Selten (2013) distinguished between bounded rationality and optimization-based behavior, as a traced-back to Simon, yet they did not give an explicitly formal definition economically. It is posited in attempt to improve psychological realism in economics and designated from the term of modern rational choice theory which one side is incapable to realize their knowledge they owned inadequate. Since this theory is newly postulated, he claimed that under selective situations, there are better ways to discover the reason and potential for new models, likewise in this case is Limited Rationality Theory. They challenged those alternative virtues by proposing more reasons. Additionally, Rabin (2013) developed form Harstand and Selten' alternatives and focused closer on the limitations of rationality with the problematic of individual decision making procedures. He stated that humans are less rational not due to complexity; the wrong answers decisions are more allure with their cognition.

Yet limited rational people, they believe that illusively they have adequate information for judgment. In this investigation, limited rationality theory is applied to measure respondents perspective which there is information from the history injected Cambodians' perspectives how they defined Thai people. The process to absorb truthful information is costly and restricted due to complexities of situations and contexts. There are limitations in terms of absorbing information which respondents are unconsciously

unaware of such restrictions during their procedural process. The explanation of decision makers as misbehavior can be eliminated by complexities and time-consuming issues. There are shortcomings of bounded rationality that is inconsistent during their plans and actions. Taking a closer scenario of limited rationality being conceptualized, situations change over time due to temporary instability and fluctuation such as mood changes, digestion, routines and living conditions. Rabin (2013) psychologically captured that people are likely to misread some signals which could lead to the contain information absence, and ultimately resulted in limited rationality.

2.3.1 Application of Limited Rationality in This Study

Human beings are naturally known as emotional and very subjective in the context and situations they are in (Albar and Jetterm, 2009). They have cognitive limitations which forbidden them from being rational and logical. This research is technically known as behavioral research in this study application. The main concern of this study is how individuals proceed information and how one would judge on the information they obtained in their mind. People are not certain why they chose the choices; from researches showed that they made choices based on the existing information and pre-existing cue environmental surroundings, which they believed it is truthful. They assumed themselves as being rational people, which is bounded to their own rationality judgment. On erroneous of respondents' beliefs, humans are irrationally neglectful and in extracting information during making their decisions. Applicably, there is a set of questions being asked respondents, which in this case, known as decision makers. It is believed that decision makers make choices without considering with all alternatives in the survey (Albar and Jetterm, 2009). On the contrary, they tend to look at the alternatives subsequently rather than simultaneously. Mostly of the time, they make decision based on the limited cognition in a particular context and situation. It is found out that not all alternatives, not all consequences, not all preferences are evoked in the practical real world.

From all the factors were discussed and analyzed in this study help to derive on the limited rationality concept to apply in this research as the latter discussion from results regression of how Cambodians made their decision and factors which affected their

intentions to get involved with Thais. The respondents are inquired to have cognitive process in dealing with making decision in the set of questionnaires. They have gone through their mind and stimulated their brain and given out the outcomes as perception, conception formation, attention, the presentation of knowledge and eventually proceeded as the final step in their answers as final decisions. The set of questionnaires were designed under limited rationality theory due to practical assumptions and knowledge of respondents, yet the knowledge and information they absorbed or perceived have limitations unconsciously.

In this research, there are two models applied to capture the limited rationality of respondents whether or not they made their decision on choosing to build friendship and get involved with the Thais are based on rational characteristics. Whether Cambodians act rationally or have been constrained due to their cognition, available information they can access to, time and resources. In reality as well as everyday life, context, decision making is dynamics. Cambodians, in this case, is defined as decision makers that would involve and depend on their knowledge, cognitive limitation of their mind, and experiences which would affect their final decision in the research. There are various important factors that constraint or restrict their decision process such as time constraints, experiences, individuals' perspectives, incomplete information, limited information, ambiguity, nature of decision, individuals' attitude and characteristics. All of which in their decision outcomes, consequent behaviors, could have misled humans from being rational to be limited rationality.

With the need for practical solutions and development of these problems, it is believed that by applying econometric models, will help to explain and confirm all of these factors. Logit Model with binary choices of the first objective to estimate how decision makers choose their alternatives from yes to make friend or no not to make friend with Thai people. Ordered Probit Model is plotted to investigate the second objective on decision makers on their limited rationality in terms of consequences of establishing their decision to get involved with Thais. It is contemplated that there are inadequate information and uncertainty as shortfalls of rationality. As a result, it may be difficult for individuals to give rational decisions. Possibly, they would find the alternatives of information to make their decision within multiple choices questionnaires. At the societal

phenomenon, even in the well-developed economic models, such matters are still exist of individual aggregations. These are how limited rationality being developed and being applied to this context. According to all constrains mentioned above, they affect their making outcomes.

2.4 Literature Reviews

Literatures have been reviewed in order to analyze and develop further studies in this work and put into perspectives from the review. In order to know from previous studies and experiments how decision making was being tested, being processed, it required to understand how decision is generated. Academically, there are very few existing literatures on employing econometric investigations under bounded rationality theory. However, the attributes determine one's attitude and behavior towards another could affect other party's in processing their decision. Literature was specifically reviewed on the econometric models, Logit and Ordered Probit applications, for empirical studies and interpretations of the data.

There are sequences of researches between South and North Korea's tour projects within a group of authors, on the Mt. Gunggang tourist project. The study is to investigate the issues of peace in friendship which is important for both Korea's, and the master plan in tourism development proved the role of tourism performance possibly could promote peace and both nations to establishing and strengthening friendship. The International Institute For Peace Through Tourism (IIPT) stated that the world largest industry is based on tourism industry which traveling has become the most essential entertainment and is the vehicle to foster peace, promote the better understanding, especially to nations potentially divided.

The study in the past from 1998 regarding the project of Mt. Gunggang project was considered as the milestone to promote peace between North and South Korea's. Kim and Prideaux (2003) studied specially on the area called Mt. Gunggang, located in North Korea, where it was a newly recreational site at the North by the tour program Gunggang Tour project. That was the first-ever joint project for the two nations after the official

division politically. The revolutionary process, the increment of traveling between the countries, the dispute conditions will eventually lead the unification within the nations. However, in the theoretical and practical of the issue have emphasized that role of tourism could initiated peace process, nonetheless the upgrading of the political security level in the country does not promote peace.

Kim, Prideaux, B. and Prideaux, J. (2006) used international relations theories of liberalism and realism to investigate tourism as a vehicle to promote peace on two Koreas. In terms of political status, the two Koreas were in the extreme opposite political systems (Kim et al., 2006). It is suggested that the unification of the divided nations, tourism could assist them by two-track of democracy. Both tracks have contributed significant avenues for increasing the understanding between citizens of the divided Korean nations. It is believed that the opening tour for South to North Koreas, given the positive outcomes and provided greater track-two engagements (Kim et al., 2006). For micro level, track-two diplomacy offers chances to promote peaceful relations and given better understanding between divided nations. They conducted the survey over a two-month period after getting the permission from travelers who had taken cruise ship from the North. The analyzing the tour was identifying as pre and post tour to a certain group of population, which ideally measured the same group of respondents. Two groups of questions were asked to the respondents and the measurement was used as the 7-point likert-type scales. The methodology used was one-way Analysis of Variance test (ANOVA) to differentiate the perceptions of the North among the 6-age groups of the respondents. It was shown that age is the most important indicator in distinguishing the south perceptions of the North based on Kim 2006 cited from the Far East Asia Research Institute in 2004. Overall, after the trip, the South did not regard the North as their enemy, which showed the positive perceptions changed after the tour. Thus the finding of the person to person level gave a strong support of liberalism view and positivism to promote peace based on the research of (Kim et al., 2006) and addition to that the interaction of person to person is a key ingredient to achieve peace relationship.

Shin (2005) studied on the empirical study on Peace Tourism trends from past, present and future of the relationship of political division between North and South Koreas. The pilot project proved to be successful and promoted the stability between the two Koreas, resulting attracting more foreign capital investments, specifically in Korea Peninsula

under Mt. Gungang Project according to Shin (2005). The methodology was used in the primary quantitative data research on the specific group of people, on the pre and post tour of their general profile of adult domestic tourists. There were five main variables of the survey, which contributed to the set of respondents which objectively on the development of peace and tourism. Bivariate analyses between every pair of variables were being discussed in pair for each sub-section. ANOVA was used to estimate the result given in order to distinguish the mean of different groups. It found out that there were no significant differences comparing to the each compared variables. The respondents did not give the same value between peace and tourism. The most component variable was education, which showed the higher of education of the person from the sample. The future relationship between the two nations has been evaluated. Political implication between North and South Korea was a significant issue for the world politics and international relations. While the result of the Shin (2005) mirrored the positive contribution from traveling into peace and thus in the future standpoint will also contribute the positive results from the sample perspective. This will help change the political issues, policies between the two governments.

Govindasamy, (2004) researched on injecting biotechnology to enhance food production in South Korea by employing Ordered Probit Model. Mainly it was measured the utility function of consumer characteristics towards the genetic modification foods in biotechnology as socioeconomics study. Dependent variable was denoted in four manners: 0: approve, 1 for disapprove, 2 as strongly disapprove, which were appropriate to run ordered probit model. There were twenty six explanatory variables in the empirical study for the model. The survey was conducted with targeted South Korean population from 20 to 59 year-old with successful 903 samples for empirical analysis. The estimation of likelihood and Chi-square statistics from the model estimated showed the significant level of the indicator variables. The results illustrated animal genetic and plant based genetic from regression of marginal effects and t-ratio interpretation. It is concluded that city resident, with demographic variables: gender (male), high income, education at high school level, and experienced in scientific test have significant results, which were more likely to approve on genetic modification food.

Briggs, (2003) studied on the economics agriculture by employing econometric models Probit and Ordered Probit Models to analyze on the demand of fresh corn. The methodology used primary data survey directly to respondents on purchasing behaviors. The author used a number of demographic factors as explanatory variables to regress Ordered Probit with stimulations used to predict probabilities of the changes on consumers' behaviors. He measured the satisfactory of respondents by asking from the past information sources of fresh sweet corn as dependent variable based on four seasons of the year. The result of Ordered Probit revealed that explanatory variables do have a statistically impact on the frequency of corn consumption. Each season has the significant impact from the parameter of the model such as demographic, satisfaction, and information variables. Summer has the highest probability of frequent purchasing than any other of the seasons. Individual variables have positively and negatively affected consumers' intensity.

Alauddin and Tisdell, (2006) evaluated on students' perceptions of teaching quality by employing Ordered Probit Model for undergraduate and postgraduate courses in economics. Teaching quality was set as dependent variable, while there were sixteen independent variables which described about instructor and course attributes rating from 1 as strongly disagree until 5 strongly agree. The results showed that only seven out of sixteen of independent variables were statistically significant with teaching effectiveness. The result found out that the most important independent variables were organization and clarity which were the most influential attributes to the teaching quality with very well supported with previous study. The degree of sensitivity of probability to transit the rating of four attribute variables such as skill, organize, present and explained by the ceteris paribus, the probability of teaching quality also changes.

Sampath, Flagel, and Figueroa, (2009) investigated on the prediction of freshmen enrollments by using logistic regression model. Enrollment was the dependent variable of the logistic regression as dummy variable. Yes to enroll=1 and No Not to enroll=0. The research conducted with primary survey from Fall 2005 to Fall 2006 with six factorized with six independent variables such as GPA, SAT score, gender, race, residency, and lastly their distance from school. There were alternative hypothesis as H_A (Estimated Model), and H_0 (Intercept only model) as null hypothesis. The estimation

showed that $H_A < H_0$; as a result, estimated Model as H_A is the best fit data for the estimation with significant at 5% level ($p < 0.0001$). Sensitivity and specificity of the fitted model results are between 69% and 66% with the cut-off value as 0.35. Consequently, the model can be improved by having other factors as independent variables for the decision makers as administrators in the university in order to manage the enrollment more efficiently.

Lee (2014) examined on the factors which influence on decision of college students behavior to adopt the smartphones by empirically conducted on survey data. The decision makers' attitude toward a product by employing logit and probit choice models developed based on random utility theory. Dependent variable for the discrete choice model of logit for utility function of a person is the owning a smartphone. There were six independent variables like peer influence, family members who possess smart phone, self-innovativeness, attitudes towards a smartphone, self-efficacy with respect to smart phone use, financial burden, and gender was used as instrumental variable. The result of logistic regression illustrated that influencing from peers is statistically significant where $p\text{-value} < .01$ and coefficient is less than 1 which is well-supported with hypothesis 1 of perceive normative of peer review. Surprisingly, the $p\text{-value}$ from the number of family is highly significant $p < .001$ which indicated that family members of using smart phone does have a better influence than peer. Attitudes towards smartphone also get a remarking notice with $p < 0.1$. Overall results from the model confirmed that students' behavior in a way of better expectation to adopt smartphone to get favorable image among friends.

Sardianou, et al., (2015) researched on entrepreneurs' behavioral intentions towards sustainable tourism with a case study in Greece by employing logistic and ordered logistic models to regress the results from the survey questionnaire equally distributed to tourism entrepreneurs. Binary and ordered dependent variable in logit model is to explore respondents' entrepreneurs toward adoption of sustainable practices and awareness of sustainable tourism. Binary outcome as Yes=1, and 0 otherwise. Ordered estimation outcomes on opinion for area for development from 1 is the worst and 5 is the best. Logit result pointed out that explanatory independent variables were statistically significance such as gender, age, income, employment, and ownership with the least of significance

level at 5% in comparison of odds ratios estimation, except previous experience variable which revealed as insignificance. Results from regressed Ordered Logit model showed that all independent variables are significance. As a result, it is confirmed that there is positive relation with business entrepreneur with the environmental awareness to sustainable development.

Another literature review in this study is about an explanation of democratic peace, which is basically discussed on the democratic and non-democratic countries. Levy and Razin (2004) hypothesized "Democratic Peace Hypothesis" in the study under structural and institutional approaches. The theory was conducted under game theory, with a two-stage of game as communication game and conflict game postulations. Preferences are homogenous according to the result of the test, which is not the matter for the public since they have no role in the decision making process. The result holds small X_{im} and X_{il} , which means preferences of median and leader in each country are more familiar. The proposition on the endogenous leadership, the distance between X_{im} and X_{il} the public or median voters may determine the identity of the leader, which could boost up the decision makers and gain power to transmit the information. Democratic regime yields a novel rational for delegation. Authority delegated by the media with a citizen preference. Model for peaceful resolution implemented with the strategic complementary. The results of the outcome are trade wars and environmental disputes are significant. The specification of the model still consists of the trade-off between information transmission and information controlled. The nature of the result will not be changed though there is extending set of actions in the conflict game. The review is on the peace resolution of conflict demand, the results are not direct of institutions for the democratic nation; however, peace is a consequence of both institutional features and strategic considerations for each democratic country.