

## 1.2.10 Alternative views of consumer

- a) *The reasons why consumers may not behave rationally:*
- *consideration of the influence of other people's behaviour*
  - *the importance of habitual behaviour*
  - *consumer weakness at computation*
- Behavioural economists challenge the assumption of rationality
  - Social and economic factors influencing demand:
    - Social awareness: e.g. awareness of health risks
    - Social norms: i.e. copying others
    - Social pressures: i.e. peer pressure
    - Habitual behaviour i.e. inertia
    - Emotional arousal after major incident
    - Emotional insecurity
    - Personal emotional attachment
  - Reasons consumers don't act rationally:
    1. The time available to make a decision is limited
    2. Not all information is available and it may be incorrect
    3. People may not be able to process and evaluate vast amounts of data which is known as computation weakness
  - Behavioural economists challenge the assumptions of economic decisions because they are not realistic. They look at the impact of social, psychological and emotional factors to try and make realistic predictions.
  - Bounded rationality is when consumers don't have sufficient information to make full informed decisions especially with increasing product complexity. Consumers use rules of thumb and approximations when active in different markets. It suggests consumers opt to satisfice rather than maximise utility
  - 'Homo economicus' is a rational individual who will attempt to maximise their utility by comparing the costs and benefits of alternatives, and then choosing the option that maximises their net utility.
  - Types of bias:
  - Choice Architecture:
    - It describes how the decisions we make are effected by the layout / sequencing/ range of choices available
  - Default bias (habitual behaviour):
    - People prefer to carry on behaving as they have always done
    - Repeat choices become automatic because default choices don't involve mental (cognitive) effort
    - Inertia is the tendency to remain unchanged
  - Framing
    - Framing a question or offering in a different way often generates a new response by changing the comparison set it is viewed in.
    - Asymmetric framing: including an obviously inferior third choice or hyper expensive/ cheap choice can guide consumers to more expensively priced options
  - Nudges

- Some alternatives are made easier to choose than others without removing the freedom of choice
- Restricted choice
  - This occurs when people's choices are restricted
- Mandated choices
  - People have to make a decision
- Social Norms:
  - Our day to day behaviour is strongly influenced by what we understand to be the prevailing social norm or social custom
- Herd behaviour:
  - We often make decisions based on who is around us and the choices they make
- Heuristics:
  - Mental shortcuts or rules of thumb to help people make a quick, satisfactory, but not perfect, answer to a complex question.
  - People learn from experience and develop heuristics over time. Optimal behaviour is not the same as maximising behaviour
- Anchoring:
  - Value is often set by anchors or imprints in our mind which we use as mental reference points
  - Some anchors establish in our mind a low price, others help to establish a high price we should be prepared to pay
  - Putting too much emphasis on one piece of information
- Priming:
  - Our behaviour by cues that work subconsciously and prime us to behave in certain ways
  - *Playing of certain types of music in a shopping mall / priming through aroma*
  - *Subliminal cues in films / TV adverts, subliminal cues before an interview*
  - *Students signing an honour-code at university before they hand in assignments*
  - *Showing pictures of older citizens may cause people to walk more slowly*
- Availability bias:
  - People often judge the likelihood of an event, or frequency of its occurrence by the ease with which examples come to mind
- Commitment:
  - The more public our position, the less willing we are to change it. We feel more strongly about objects we are committed to
- Examples of behavioural nudges:
  - Eliminating or restricting choice: e.g. banning smoking in public places
  - Financial disincentives to take a particular course of action: e.g. taxes on cigarettes
  - Provision of information: Calorie counts on menus
  - Changes to environment: i.e. choice architecture e.g. designing buildings with fewer lifts
  - Using social norms: e.g. Use the power of social norms to demonstrate that most other people are behaving differently i.e in a more socially acceptable way for example, better behaviour on public transport