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Behavioural economics: Insights for effective consumer policy and improved understanding of consumer: A case study of Pathanamthitta district in Kerala, India

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Abstract

This study explores the influence of behavioural economics principles on the purchasing decisions of youth in the Pathanamthitta district. It aims to understand how factors such as cognitive biases, emotional influences, social pressures, and heuristics impact the decision-making processes of young consumers in this region. The study employs various behavioural economics principles like loss aversion, framing effect, social proof, and endowment effect to investigate their influence on the buying behaviour of youth. The findings could lead to better-targeted marketing strategies, more effective public policies, and a deeper academic understanding of young consumer psychology in the context of an increasingly complex marketplace.

Keywords: Behavioural economics, cognitive biases, loss aversion, framing effect, social proof, nudging

Introduction

Consumer behaviour studies how customers, groups, or organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and desires. It involves elements from psychology, sociology, social anthropology, marketing, and economics, and it seeks to understand the decision-making processes of buyers, both individually and in groups. Understanding consumer behaviour is crucial for marketers as it helps them create better marketing strategies by understanding what influences consumers' buying decisions.

The traditional approach to consumer behaviour assumes that the consumer has well-defined preferences over all of the alternative bundles and that the consumer attempts to select the most preferred bundle among those available bundles. Traditional economic theory always assumes that people are rational and make decisions based on maximizing their utility. However, the field of behavioural economics has challenged this assumption, suggesting that individuals often exhibit irrational or biased behaviours that significantly impact their purchasing decisions. Behavioural economics studies cognitive biases, which are systematic deviations from normative standards in thinking and decision-making, as well as heuristics, which are simple rules that people use to make decisions and solve problems efficiently. This approach provides insights into how psychological factors influence economic behaviour, offering new perspectives on decision-making processes.

Statement of the Problem

Despite the proliferation of research on consumer behaviour and the growing recognition of the influence of behavioural economic principles, there remains a notable gap in understanding how behavioural economic principles specifically shape the purchasing decisions of youth, particularly within the context of the Pathanamthitta district in Kerala, India. While traditional economic models assume rational decision-making, behavioural economics suggests that individuals, including young consumers, often exhibit irrational or biased behaviours that significantly impact their choices. Thus, there is a pressing need to explore how principles such as loss aversion, framing effects, social norms, and decision-making biases manifest in the purchasing behaviours of youth in Pathanamthitta district.

Research Questions

This study seeks to address the following key questions:

1. How do people in the Pathanamthitta district perceive and prioritize various factors when making purchasing decisions?
2. What role do behavioural economics principles such as loss aversion, framing effects, social norms, and decision-making biases play in influencing the purchasing decisions of people in this demographic?
3. To what extent do social influences, including peer pressure and social media, shape the purchasing behaviours of youth in Pathanamthitta district?
4. What implications do the findings of this study hold for businesses, policymakers, and educators seeking to better understand and influence youth consumer behaviour in the Pathanamthitta district?

Objectives of the Study

- To study the socio-economic profile of youth in the Pathanamthitta district.
- To analyze the consumption pattern and decision-making process of youth.
- To investigate the factors influencing the purchasing decisions of youth.
- To analyze the specific behavioural economics principles such as loss aversion, social proof, present bias, and cognitive biases that influence the purchasing decision of youth.

Materials and Methods

The study used primary and secondary data to critically evaluate the influence of behavioural economics principles on purchasing decisions among Youth in Pathanamthitta district. Using a convenient sampling technique, primary data was collected from 100 sample respondents aged 18-30 with the help of a well-structured questionnaire. Questionnaires are set in line with the scaling approach. Secondary data was also collected from books journals and internet sources. Statistical analysis was also done using percentages and averages.

Literature Review

In the theoretical literature, the emergence of behavioural economics is seen as a significant event in economic science. It builds upon the ideas of prominent economists like Adam Smith, Robert Malthus, and John Stuart Mill, who delved into psychological aspects of human behaviour. In "The Theory of Moral Sentiments," Adam Smith explored psychological issues such as feelings and human nature. He viewed people as driven by self-interest but also recognized the complexities of human nature. Miloš S. Krstić (2022) ^[7-8] explores how behavioural economics brings together psychology and economics to better understand human behaviour. It analyzes various research programs within behavioural economics and discusses the importance of challenging the idea of maximizing rationality, especially in the context of state intervention in the economy and society. Behavioural economics studies cognitive biases, which are systematic deviations from normative standards in thinking and decision-making, and heuristics, which are simple rules that people use to make decisions and solve problems efficiently. Behavioural economics provides insights into how psychological factors influence economic behaviour, challenging traditional

economic assumptions and offering new perspectives on decision-making processes. Rajneesh Kler *et al.* (2022) ^[5-6] explored the motivational factors that make consumers energetic and excited concerning per-chance decisions while buying any item. They examined how an individual or customer is driven by their family, culture, sub-culture, friends, colleagues, society, advertisement, packaging, and other factors like price and brand. The study revealed that all the factors that influence consumers' motivation to make their buying decision, will help brands to foster their marketing strategies, publishing techniques, advertisements, etc. to fulfil the needs of the market and demand of their targeted audience, leading to enhanced brand image, brand loyalty, and productivity. Carroll, L.S, White, M.P. and Pahl, S (2011) ^[2] investigated the Impact of excess choice on deferment of the decision to volunteer. Their findings suggest that excess choice can lead to deferment of the decision to volunteer, which has implications for understanding consumer behaviour in various contexts. Reed, D.D, Naude, G.P, Salzer, A.R, and Peper, M. (2020) ^[9] provided a descriptive review of published approaches to the cigarette purchase task, which is a behavioural economic measurement of cigarette demand. This study offers insights into how behavioural economics can be applied to understand consumer behaviour in the context of addictive substances. Strickland, J.C, Campbell, E.M., Lile, J. A and Stoops, W.W. (2020) ^[10] conducted a review and meta-analysis on utilizing the Commodity purchase task to evaluate behavioural economic demand for illicit substances. This work contributes to the understanding of how behavioural economics principles can be applied to study consumer behaviour in the context of illegal markets. These studies demonstrate the growing body of research on the application of behavioural economics principles to consumer behaviour, providing a strong foundation for the current study on the influence of these principles on the purchasing decisions of youth in the Pathanamthitta district.

Theoretical Framework

The principles of behavioural economics challenge the traditional explanations of rational decision-making in economic theory. Specifically, the study explores the following behavioural economics principles and their influence on purchasing decisions.

- **Loss Aversion:** The tendency of people to strongly prefer avoiding losses to acquiring gains.
- **Anchoring Effect:** A cognitive bias in which individuals rely heavily on the first piece of information they receive (the "anchor") when making decisions or judgments, even if that information is arbitrary or irrelevant
- **Framing Effect:** The way a choice is presented or framed can influence decision-making, even when the underlying options are the same.
- **Social Proof:** The tendency for people to conform to the actions of others, particularly in uncertain situations.
- **Endowment Effect:** The tendency for people to value an item more once they own it, compared to the price they would be willing to pay to acquire it.
- **Present Bias:** The tendency for people to give stronger weight to payoffs that are closer to the present time when making decisions.
- **Cognitive Biases:** Systematic deviations from normative standards in thinking and decision-making,

such as anchoring, availability heuristic, and confirmation bias.

Results and Discussion

The study presents a comprehensive analysis of the purchasing decisions and behavioural patterns of youth in the Pathanamthitta district. The study utilizes a range of variables to understand the various demographic and behavioural factors, providing valuable insights into the decision-making processes of this target group.

Socio Economic Profile

The classification of respondents, based on age reveals that the majority (53.3%) fall in the 19-21 years age group, followed by the 21-23 years age group (16.7%) and the 17-19 years age group (15.1%). With an even distribution between male (50%) and female (50%) respondents, the study attempts a balanced representation that allows for a comprehensive analysis of purchasing decisions across genders. The educational background of the respondents indicates that the majority (70%) are undergraduates, followed by postgraduates (16.7%) and high school (13.3%). Classification of the respondents based on the monthly income reveals that the largest proportion (41.7%) have an income between ₹10,000 to ₹20,000, followed by those with an income below ₹10,000 (31.7%). This income distribution provides context for understanding the purchasing power and decision-making of the youth in the region.

Consumption pattern and decision-making process of youth

The majority of respondents (65%) indicated that they were "somewhat" influenced by their past purchasing decisions, while 16.7% were "strongly" influenced. This suggests that the youth in Pathanamthitta district exhibit a degree of consistency and consideration in their purchasing behaviour, which may be influenced by behavioural economics principles like loss aversion and the endowment effect. 51.7% of respondents prefer to find a free alternative streaming service over subscribing to continue using the service, suggesting the influence of loss aversion and the endowment effect. This finding indicates that the youth in the region are susceptible to the loss aversion and endowment effect, where they tend to value the continued use of service more than the potential cost savings of switching to a free alternative.

Factors influencing the purchasing decisions of youth:

This aims to explore the various factors that shape the purchasing decisions of young consumers in the Pathanamthitta district. The study uncovers the specific elements that influence the decision-making process of this demographic when making purchasing choices.

The most important factors considered by respondents when making purchasing decisions are product quality (50%), price (21.7%), and brand reputation (10%). 61.7% of respondents sometimes make impulse purchases, indicating a mix of planned and impulsive purchasing behaviour. 41.7% of respondents are more likely to purchase a product if it comes with a gift or bonus item, highlighting the influence of promotional offers. 56.7% of respondents sometimes consider the packaging and presentation of a product when making a buying decision. The findings

suggest that brand reputation and trust play a significant role, with 53.3% of respondents considering it an important factor in their purchasing decisions. The study also reveals the influence of convenience and accessibility, with 51.7% of respondents considering it a key factor in their purchasing decisions. Additionally, the study finds that social influences, such as peer pressure and social media, shape the purchasing behaviours of youth, with 46.7% of respondents indicating that these factors influence their decisions.

Influence of specific behavioural principles vis-a-vis loss aversion, social proof, present bias, and cognitive biases in the purchasing decision of youth

This objective aims to investigate how various behavioural economics principles, such as loss aversion, social proof, present bias, and cognitive biases, shape the purchasing decisions of youth in the Pathanamthitta district. The study seeks to understand the specific ways in which these behavioural principles manifest in the decision-making processes of young consumers in the region.

The study reveals the influence of loss aversion and the endowment effect, where 51.7% of respondents prefer to find a free alternative streaming service over subscribing, indicating their reluctance to lose the service they currently have. The study also highlights the role of social proof, where 53.3% of respondents consider online reviews and ratings as an important factor in their purchasing decisions. The findings suggest the presence of cognitive biases, such as anchoring, where 56.7% of respondents are influenced by scarcity tactics like limited-time offers when making purchases. The study also reveals the impact of authority bias, where 46.7% of respondents are likely to purchase a product if it is endorsed by a trusted authority. The study findings suggest that the youth in the region exhibit a mix of rational and behavioural factors in their purchasing decisions, influenced by principles such as loss aversion, the endowment effect, and social proof.

Suggestions and Conclusion

The study on the influence of behavioural economics principles on purchasing decisions among youth in the Pathanamthitta district sheds light on the complex interplay of psychological factors that shape consumer behaviour. Through a comprehensive exploration of cognitive biases, social influences, and decision-making processes, the research has provided valuable insights into the drivers behind youth purchasing decisions in the region.

Key findings reveal that behavioural economics principles such as loss aversion, social proof, and choice architecture play significant roles in influencing youth purchasing behaviour. Strategies that leverage these principles, such as targeted marketing interventions, nudging techniques, and social influence strategies, hold promise for effectively shaping consumer choices and promoting desired behaviours among youth.

Furthermore, the study underscores the importance of tailored approaches that recognize the unique characteristics and preferences of the youth demographic in Pathanamthitta district. By understanding and harnessing the power of behavioural economics, businesses, policymakers, and other stakeholders can develop more effective strategies for engaging with youth consumers, driving positive outcomes for both individuals and society as a whole.

However, it's crucial to acknowledge the limitations of the study, including sample size constraints, potential biases in data collection, and the dynamic nature of consumer behaviour. Future research efforts could build upon these findings by exploring additional behavioural economics principles, conducting longitudinal studies, and evaluating the long-term impact of interventions on youth purchasing behaviour in Pathanamthitta district.

Overall, the insights gained from this study contribute to a deeper understanding of consumer behaviour in the context of behavioural economics and provide actionable recommendations for businesses, policymakers, and practitioners seeking to influence purchasing decisions among youth in Pathanamthitta district. By incorporating behavioural economics principles into their strategies, stakeholders can create more effective and impactful interventions that drive positive change and foster sustainable consumer behaviour patterns among youth in the region.

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