Chapter 8: Consumer Behavior

Section 8.1: What Drives Consumer Choices?

Consumer behavior is the study of how individuals, households, or groups select, purchase, use, and dispose of goods and services to satisfy their needs and desires. At its core, it tries to answer a simple but powerful question: Why do people buy what they buy?

There are several key factors that influence these decisions. For instance:

- Psychological Factors: Motivation (like hunger or status), perception (how someone sees a product), learning (past experience), and attitudes (positive or negative feelings toward a brand).
- Personal Factors: These include age, occupation, income level, lifestyle, and personality. A retired farmer in Satkhira may have very different consumption patterns from a teenage student in Dhaka.
- Social Factors: Family, friends, social media, and influencers often shape our preferences. Peer pressure or trends can lead people to choose certain brands over others, even if cheaper or better alternatives exist.
- Cultural Factors: Deep-rooted beliefs, customs, and societal values affect what is considered desirable. For instance, a festival might cause spikes in spending on clothing or sweets due to cultural significance.

Businesses study these behaviors to create targeted marketing campaigns, while economists use this understanding to forecast demand patterns and consumer confidence. Understanding consumer behavior isn't just selling products — it's vital for creating effective public policies and improving quality of life.

Section 8.2: The Role of Utility

In economics, utility is a term that represents the satisfaction or benefit a consumer receives from consuming a good or service. While utility can't be measured directly, it provides a useful way of understanding consumer choices. There are two types of utility:

- Total Utility (TU): the total amount of satisfaction a person gets from consuming a given quantity of goods or services.
- Marginal Utility (MU): the additional satisfaction received from consuming one more unit of a good.

For example, imagine you are eating samosas. The first one is probably delicious (high MU), the second one is still enjoyable (less MU), but by the fourth or fifth samosa, the excitement fades. Your stomach can't take it anymore, and your taste buds become accustomed to the taste. This decline in extra satisfaction is called the Law of Diminishing Marginal Utility.

This law explains why demand curves slope downward: consumers are willing to pay less for additional units of the same good. It also informs decisions like "how much should I consume?" or "should I switch to something else?"

Consumers constantly face budget constraints — limited income and competing needs. So, they aim to maximize utility by allocating their income in a way that gives them the greatest benefit per unit of cost.

Governments and marketers both use this principle. Governments might tax goods with low marginal utility (like luxury cars), while marketers try to increase perceived utility through branding, packaging, or bundling offers.

Section 8.3: Rational Vs. Irrational Behavior

Traditional economists are based on the idea of rational consumers: individuals who logically evaluate all available options and choose the one that maximizes their utility. But in reality, people often act irrationally — emotion, habit, and cognitive bias frequently guide decisions more than logic does. This is known as the bounded rationality in economics.

This is where behavioral economics comes in. It blends psychology with economics to explain why consumers deviate from rational behavior. Here are some common biases and irrational behaviors:

- Anchoring Bias: People tend to rely heavily on the first piece of information (the "anchor") they see. For instance, if a product was originally US$100,

but now is only $50, consumers perceive it as a bargain, even if it is not worth it.
- Loss Aversion: We fear losses more than we value gains. A person might avoid investing, even if the potential returns outweigh the risks.
- Present Bias: Also called instant gratification, this is the tendency to prioritize immediate rewards over long-term benefits. It explains overspending or unver-saving behaviors.
- Hard Mentality: People often mimic the choices of others, thinking if the crowd is doing something, it must be right — even if it's not.

These biases affect markets. For example, during a panic (like a sudden run on banks or fuel), people behave irrationally, leading to supply shortages or inflation. Understanding these behaviors helps the government design nudge policies — subtle ways to guide people to better choices, such as enforcing restaurants to label calories on menus or auto-enrolling workers in pension plans. In essence, recognizing our own biases can help us become more mindful and responsible consumers.

Section 1.4: Fun Facts

- Ever notice why popcorn is so expensive at movie theatres? It's called price discrimination. Since theatres know moviegoers value the full experience, they charge more for snacks to boost profit margins — capitalizing on consumer behavior.
- Why do people stick with overpriced brands? It's often due to brand loyalty, where past positive experiences or social status linked to brand outweigh logic — even if a cheaper, better option exists.
- Did you know sales ending in ".99" trick your brain? Known as charm pricing, consumers perceive $4.99 as significantly cheaper than $5.00 — even though it's just one cent less. That tiny difference makes a big impact on buying decisions.