# Edexcel (A) Economics A-level

## Theme 1: Introduction to Markets and Market Failure

## 1.2 How Markets Work

### 1.2.10 Alternative views of consumer behaviour

Notes

- Consumers do not always act rationally. Acting rationally means making a decision that results in the most optimal level of utility or benefit for the consumer.
- The rational consumer is *Homo Economicus*, who is a utility maximiser and makes rational decisions.

- The reasons for this are:

  - **The influence of other people's behaviour**
    Assume there are two restaurants; one is empty whilst the other has a long queue. Consumers are more likely to queue for their food than go straight into the other restaurant. The behaviour of other people affects how the consumer acts.
    Other people's behaviour creates a bias within the consumer. This social pressure encourages consumers to do things they would not otherwise do, or that they know could be harmful. Consumers become unwilling to change, even if it is of benefit to them, if it goes against the norms of their society.

  - **The importance of habitual behaviour**
    Habits reduce the amount of time it takes to do something, because consumers no longer have to consciously think about their actions. For example, a commute to work becomes a habit over time. Habits create a barrier to making a decision. They limit or prevent consumers considering an alternative. A commuter who is familiar with one route to work is unlikely to consider an alternative route, because they would have to re-familiarise themselves with it.
    For example, it is hard for consumers to give up smoking, even if they know it is good for them, because they are habituated to it.
    Similarly, consumers might find it hard to save for the future, such as for a pension, because they have a habit of spending in the present.
    Breaking a habit causes withdrawal symptoms in the consumer, which may make them feel uncomfortable, so they continue to commit the irrational action.

  - **Consumer weakness at computation**
    Consumers are unable to exercise self-control with some decisions. The law of diminishing marginal utility suggests that every extra unit consumed provides a smaller benefit to the consumer. Yet, if the example of food is taken, some consumers will still eat more than gives them optimal benefit.

Another example could use the short term and long term view. Consumers know that it will benefit them in the long run if they save for their pension, but this will limit their spending in the short run. Spending less in the short run instils fear in the consumer, even if they are aware that unless they save, they will not be able to consume as much in the long run. With the long run view, consumers feel as though they 'could always start saving tomorrow'. It is this procrastination which leads to consumers making irrational decisions by not having self-control.