

# Consumer Theory and Behavioural Analysis (SOS 2023)

Satvik Jain

August 2, 2023

# Topics

- ▶ Overview
- ▶ Rational Consumer Behaviour
- ▶ Behavioural Economics

# Consumer Theory Overview

## Definition

Consumer theory is a branch of microeconomics that studies how consumers make choices about what goods and services to purchase.

## Key Concepts

Utility: The satisfaction or pleasure consumers derive from consuming a product.

Budget Constraint: The limitation on consumer choices due to income and prices of goods.

Preferences: Individual tastes and subjective judgments that influence consumer decisions.

# Rational Consumer Behavior

## Explanation

In classical consumer theory, consumers are assumed to be rational decision-makers.

## Rationality Assumptions

Completeness: Consumers can rank their preferences for all available options.

Transitivity: If option A is preferred to option B and option B is preferred to option C, then A is preferred to C.

Non-Satiation: More is preferred to less (i.e., consumers always want more of a good).

# Behavioral Economics

## Explanation

A field that combines insights from psychology and economics to understand how real-world consumers make decisions.

## Departures from Rationality

Bounded Rationality: Consumers may have limited cognitive abilities to make complex decisions.

Behavioral Biases: Common biases like loss aversion, present bias, and anchoring that influence decision-making.

Heuristics: Mental shortcuts that simplify decision-making but can lead to suboptimal choices.

# The End

Thank you for your attention.