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Behavioural Economics Approach on Consumer Brand Choice – An Individual Analysis

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Abstract

This research intends to explain more on brand choice particularly related to the consumer's sensitivity towards price changes. Theories and principles of behavioural economics specifically the matching law, are utilised in this study, as they explain more about brand choice. It examines and elucidates why consumers choose a certain product/brand and what influences them to do so. Price, an obvious source of explanation in behavioural economics has not been systematically related to brand choice other than in the context of promotional campaigns which are short-lived tactical exceptions to marketing strategies (Ehrenberg et al., 1994). Price differentials among rival brands are usually assumed to be too small to influence the patterns of brand choice. A sample of 200 respondents are obtained from the panel data; A.C Nielson Company where each of them bought the four products; baked beans, fruit juice, yellow fat and biscuits within 52 weeks. The analysis of the data in this research is done individually and quantitatively In order to elucidate in detail the decision mechanisms engaged by consumers in making choices, the theories and methodologies used by behavioural economists are where three analyses are conducted which are *matching*, *maximisation* and *relative demand analyses.* The results show that, at individual level, (a) consumers' purchasing patterns show matching, (b) consumers maximize returns where each individual are proven to be having different influences throughout their everyday consumption.

Keywords: behavioural economics;brand choice; substitutability;price

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1. Introduction

Behavioural economics is defined as 'a commitment to empirical testing of the neoclassical assumptions of human behaviour' (Simon 1987, p. 221). It emerged as a sub-discipline of economics. The traditional classical and neo-classical economics rest on assumptions that people have rational preferences and maximise utility based on full and relevant information. Economics has not simply been the study of the allocation of scarce resources but rather has been the study of the rational allocation of scarce resources (Simon 1983, p. 445). It is well known for its analytic approach, where great emphasis is placed on mathematical model and formulation. Individuals, according to economists, are bound to behave in a way that could maximise their utility or self-interests. According to Simon (1983), traditional economic theory assumes an individual as an 'Economic Man'; a rational individual who has knowledge of every aspect of his environment, is well-organised with a stable system of preferences and good at calculation; all of these criteria enable him to reach the highest point on his preference scale. The Economic Man is described as being rational in the pursuit of his self-interest, implying that individuals behave in order to maximise utility (Herrnstein 1990a). Rational behaviour itself is behaviour that maximises utility and this utility can be equally substituted with pleasure or well being (Rachlin 1980). Criticisms have been made of this theory, as humans are believed to behave irrationally when it comes to making decisions. They are limited by a number of constraints; thus the economist's view on rationality and optimisation are said to be misleading. Rachlin et al (1976) argue that if basic axioms of demand theory like 'more is better than less' are not even consistently observed in animal behaviour studies, these principles are likely to be even more inappropriate in the context of human behaviour. Economics has traditionally been concerned with *what* decisions are made rather than *how* the decisions are made (Simon 1982).

Herbert Simon in the 1950s took a step in reunifying psychology and economics. Cognitive psychology was then brought back to shed these arguments and created interests to the economic theory. Theories of bounded rationality were then introduced by Simon (1957) as theories that incorporate constraints of the information-processing capabilities of the individual. According to this theory, people do make rational decisions but within certain limits and these limitations include time, money, information, and so forth. Economic concepts are applicable and significant in behavioural analysis. Similarly, the behavioural approach can be applied meaningfully in economic studies. Thus, a combination of both concepts and theories employed could lead to a greater understanding of the interaction between behaviour and the economic variables and is held to be able to explain human behaviour, with promising findings and outcomes. Behavioural economics was established on the basis of psychology and economics with the intent to investigate actual human behaviour constrained by their bounded rationality (Simon 1987). It combines the theory of economics with the content of operant psychology (Winkler and Burkhard 1990) in an attempt to explain the theory of economics with psychologically and cognitively approach. It lies between the disciplines of pure economics and psychology. 'The two principal objectives for bringing psychology into economics are broadening the behavioural basis of economic analysis and expanding the limits of applicability of economic theory' (Albanese 1988, p. 10). Behavioural economics refers to the area of economic research concerned with predicting and controlling human behaviour (Kagel and Winkler 1972) and reveals human limitations and complexities in its investigation and experiments. It promises empirical techniques and findings in the pursuit of understanding and predicting how consumers allocate the available economic resources for purchase and consumption (Pratt 1972).

1. The Matching Law

Rachlin et al (1981) state that all behaviour is choice behaviour; hence, the objective of behavioural psychologist is to predict behaviour in making choices. Herrnstein's General Matching Law (1970) predicts