Consumer behavior today does not reflect how an economic man would think

Business, Marketing

Sophie Bullard Consumers from different parts of the world grow up with different values, beliefs, and morals that all contribute to their particular economic behavior. Research shows that culture, subculture, and social classes are particularly important on consumer buying behavior. For example, Mexico adolescents are more likely to seek parental advice or respond positively to ads with parental figures in the purchase of items ranging from candy to movies to fashion clothing than United States (Keillor, Parker, and Schaffer, 1996). This difference in consumer behavior is primarily because in the United States the family is less important than in many other cultures. The United States is mainly a consumerist economy since many of us typically spend every bit of our income without planning for the future, while Chinese citizens contrarily have one of the world’s highest personal savings rates.

The economic man refers to an idealized human being who acts rationally and with complete knowledge, who seeks to maximize personal satisfaction at the expense of others. In reality, human beings tend to digress from the economic man model that mainstream economists support. This argument is proven by analyzing the results of the Haifa childcare social experiment, the conclusions of the ultimatum game, and the differences of consumer savings rates in the US and China. Human beings often value their moral duties more than money itself, as demonstrated by the daycare tardiness social experiment in Israel (Bowles, 30). Many parents were regularly late picking up their kids at the end of the day. Mainstream economists decided to impose a tardy fee in hopes to incentivize parents to be on time based on the rational economic man model of human behavior. However, once this late fee was implemented, the number of tardy parents doubled which researchers believe was due to parents no longer feeling that that there was a moral obligation to be on-time, since they could simply pay for their lateness. Once mainstream economists realized their solution had failed, they decided to remove the tardy fee altogether and expected the parents to return to their original arrival times. However, the quantity of tardy parents remained the same.

The moral obligation to be on time out of respect was diminished (Bowles 31-32). Political economists would explain these outcomes by stating that human beings value trust, community, and the welfare of others, and the reason that parents continued to arrive late even after the fee was removed was because the trust was broken. Another behavioral experiment which tested the political economy and mainstream approaches is called the ultimatum game where one person is termed the “ initiator” and the other is the “ responder”. The initiator decides how much of the “ pie”, of say ten dollars, they want to offer to the responder, who then decides whether they want to accept or reject the offer. If the responder accepts, each person gets their share of the pie, but if they reject the offer, neither participant gets any money. Using the rational economic man model, the responder should accept any offer from the initiator that is greater than zero because they would be fiscally better off. However, the results from the game showed that very few initiators and responders played as the economic man would because most initiators offered between 40 and 50 percent of the total pie, and most respondents unanimously rejected an offer of 25 percent or less

(Bowles 37-39). The reasoning behind the proposer's generous offer of about half the pie is because they fear that if they offer less, the responder may feel disrespected or insulted and not accept, leaving them with nothing. Furthermore, the most frequent outcomes of the game support the political economy point of view because the responder values fairness more than money.

Lastly, the political economy approach believes that a consumer's financial decisions are partially based on their country's culture as seen in the dramatically different saving and spending trends between American and Chinese citizens. The average US consumer savings rate is about 0. 5 percent, while China's average savings rate is about 30 percent (Shimek, Wen). Chinese people are worried about costs of health care, education and old-age pensions and are unsure about how much these costs might change over time, they respond by saving more. In opposition to this argument, American culture is more heavily influenced by consumerism and advertising, which may explain why many of us usually spend all of our money and, in turn, end up with approximately zero savings. In support of this argument, Frantz states " Americans now average six hours per week shopping, as opposed to only forty minutes playing with their children. " (3 Furthermore, Americans are known for spending money they do not have, creating credit card debt and paying high interest rates, which is irrational, especially if it can be avoided. American saving and spending rates are unjustified because of the nature of our consumerist-centered culture and the fact that we do not plan for possible emergencies. These specific aspects of these nations were developed based on not only cultural, but geographical factors. Thus, using the economic man model to predict consumer behavior in spending and saving rates for all human beings proves to be illogical.

The political economy approach takes cultural values into consideration when predicting consumer spending and saving habits, while the mainstream approach believes that humans are programmed to act like the economic man. Furthermore, the outcomes of the social and behavioral experiments prove that humans follow the political economy perspective because they value morals such as trust and fairness, which can then be used to predict consumer behavior. Consumers' spending behaviors are extremely unpredictable because they are based on ever-changing trends in domestic politics and their social reactions. For example, the US may have fluctuations even in our largely consumerist society: the stock market reached new highs during the first 30 days that Trump entered office due to investor optimism (Valverde). However, investors may not always remain as enthusiastic as they are during this “ honeymoon” phase.

The president's policies remain unclear and may cause uncertainty in the market, indicating that even this consumerist-dominated culture is essentially unpredictable. Thus, we should not apply the economic man model nationally or universally because any economic theory about a culture of people will always be compromised by ever-changing social and political influences. People's preferences change every day based on the new trend or what happens in the news for example, so their decisions change especially when purchasing or selling. We use the political economy approach to explain consumers' behaviors because they are unpredictable and cannot be explained monolithically as they come from different cultures and often value their moral standards more than money.