

The Psychological Mechanism of Consumers' Irrational Decision-Making from the Perspective of Behavioral Economics

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Abstract. In society today, people often think that consumers are usually rational, and they make decisions after thinking and comparing them when shopping. However, this is not the case. Most of the time, consumers often show irrational characteristics such as impulsive prejudice or crowd psychology when shopping. This paper will focus on the factors that affect consumers making irrational decisions, such as an in-depth exploration of the psychological mechanism of consumers' irrational decision-making or the impact of consumers in different consumption scenarios. This paper analyzes the classification of the main psychological mechanisms of consumers' irrational decision-making through examples, such as the irrational mechanism driven by cognitive bias, the irrational mechanism driven by emotion and motivation, etc. The irrational decision-making psychological mechanism is brought about by different consumption scenarios, such as the impact of the irrational decision-making psychological mechanism on consumers in different scenarios such as online shopping. Not only that, but it also puts forward strategies that can help consumers make rational decisions according to the situation. The core research significance of this paper is to analyze the psychological mechanism of irrational decision-making of consumers to remind consumers how to make more rational consumption decisions, help consumers protect their rights and interests, and understand how to consume rationally.

Keywords: Psychological mechanism, irrational decision-making, behavioral economics.

1. Introduction

In the context of the rapid development of online shopping and the numerous marketing strategies nowadays, it explores what kind of consumption background, and which psychological mechanisms will influence consumers to make irrational decisions. This not only helps protect consumers' rights and interests but also helps marketing management further understand consumer psychology. Because "Marketing management involves the planning, execution, and analysis of activities aimed at satisfying customer needs while achieving organizational goals" [1]. And "In recent years, there has been a growing recognition of the significance of psychological insights in shaping marketing strategies" [1]. This means that psychological insight is an extremely important skill for both consumers and sellers. And due to the reason, that "Live streaming is increasingly becoming a popular e-commerce business model. Although impulse buying is a traditionally common consumption phenomenon, there is little discussion on the underlying mechanism of impulse buying behavior from the perspective of consumer protection", the online shopping environment is also very worthy of attention [2]. Because compared with traditional retail, the impulse buying tendency in online shopping is higher, which is also due to the diverse product displays and marketing strategies. Similarly, in the context of high-end consumption scenarios, due to factors such as the identity recognition framework effect, people have "Perceived values (hedonic and utilitarian values) positively mediated the channel and consumer traits factors and webrooming intent" [3]. Such psychological mechanisms further exacerbate consumers' making irrational consumption decisions.

Babangida Adedeji believes that the cognitive bias brought about by different price settings, such as usual prices and activity prices, drives irrational decision-making mechanisms and affects people's choices [4]. Scholars believe that the blind box is not expensive, which makes it easier to sell, thus becoming a symbol of identity [5]. Scholars said that under the background of the huge blind box

economy, such products themselves have the ability to become cultural symbols [6]. Research explained that a certain point phenomenon is caused by people's evaluation of the value of a thing in uncertain situations, which is indeed affected by the data information received before, which leads to judgment bias [7]. Scholars explain the definition of scarcity, which refers to the limited availability of any type of resource [8]. Scholars introduced the reason for the rise of live streaming with goods. They proposed that due to the travel blockade caused by COVID-19 in the past two years, consumers The demand for shopping has increased [9]. Chae Hyun Lee, Han Na Lee and Jeong Il Choi proposed that the source of information is an efficient advertising medium and communication channel. Therefore, people will tend to believe in what they think is reliable sources of information, thus giving many online merchants the opportunity to guide consumers to consume [10].

2. The Main Psychological Mechanism of Consumers' Irrational Decision-Making

Human decision-making ability is often regarded as one of people 's most prominent characteristics. It is usually based on rationality to judge whether the benefits are sufficient and appropriate. From choosing the price of daily food ingredients to screening the cost-effectiveness of buying a house or a car, people often make comparisons and try to decide on the most cost-effective or suitable option. However, if people repeatedly review the results of decisions, the so-called "rational and logical decisions" people make are often influenced by external factors, leading to biases and loopholes. This means that human decision-making ability is not as rational as people think.

The main psychological mechanisms of consumers' irrational decisions can be generally classified into three categories: irrational mechanisms driven by cognitive biases, irrational mechanisms driven by emotions and motivations, and irrational mechanisms driven by social interactions. Based on this, this paper explores the factors that influence consumers to make irrational decisions.

2.1. Irrational Mechanism Driven by Cognitive Bias

The irrational mechanism driven by cognitive biases means that consumers rely too much on initial information when deciding whether to purchase, such as the marked price of a product, rather than making independent judgments. They also do not understand the market value and actual value of the product. For example, online shopping has become a popular trend in today's society, and online shopping often has many "promotional prices" to attract consumers to spend, such as Taobao and JD.com in China often hold promotional events on consumer holidays created by merchants, such as June 18th and November 11th. However, in many cases, the so-called promotional prices are because merchants adjust the original price of the product before the promotion, making it higher than the long-term selling price. Therefore, the 10% or 20% price reduction during the promotion period seems particularly attractive. This is a product pricing mechanism that targets consumers' psychology, causing them to fall into the cognitive bias decision-making trap. This is because most consumers hope to save money when purchasing goods, but the vast majority of consumers can only rely on the product price as the basis for judging whether a product is worth the price. When an item is priced lower than the market price, consumers will subconsciously think that the "promotional price" listed on the webpage is the price they can save compared to the "original price", leading them to rush to buy it, thinking they have got a bargain. But "These biases lead individuals to systematically deviate from rational decision-making, often resulting in suboptimal choices" [4]. Which means that this seemingly rational decision-making and logical thinking chain actually causes consumers to fall into the cognitive bias trap caused by merchants' price adjustments.

2.2. Irrational Mechanism Driven by Emotion and Motivation

The irrational mechanism driven by emotions and motivations is based on some consumers' aversion to losses, where the pain of loss far outweighs the sense of benefit. How to explain this so-called disgust loss? According to the current consumer market in China, various online shopping

platforms, whether it is food delivery or online shopping apps, will issue discount coupons or coupons based on various promotional activities to attract consumers to make purchases. And this so-called 'loss aversion' is when some consumers, driven by emotions, choose to purchase items they may not necessarily need just to avoid wasting the discount coupons they have obtained. However, due to the fact that most discount coupons have a certain threshold, such as reaching a certain value before they can be used, it is often difficult for consumers to meet this standard within their original needs, resulting in consumers having to increase their purchases of goods or takeaway food. These additional consumption items are not the original needs or psychological needs of consumers but are selected as "bundled items" due to emotional drive and not wanting to waste discounts. This also means that these added items often end up forming a feeling of "worthless" in the minds of consumers. When it comes to food delivery apps, this will result in a lot of food being wasted, while if it is a regular item purchase, it will make consumers feel like they have bought something meaningless after consumption. However, no matter what, the money has already been spent. However, due to the emotional drive of consumers to raise the threshold for coupons in order not to waste them, they may feel regretful afterwards. Through this, people can easily find that irrational decisions driven by emotions cannot actually bring consumers emotional feedback equivalent to the cost of spending.

2.3. Irrational Mechanism Driven by Social Interaction

The third type of irrational decision-making is the irrational mechanism driven by social interaction, which is usually caused by the herd mentality. The so-called herd mentality is usually caused by consumers' desire to gain more social identity or common identity recognition. Although identity is essential for humans as social animals, the decisions made to obtain this sense of identity are not based on rational thinking. Nowadays, the blind box favored by young people is one of the common consensuses, existing as a symbol of common identity. Also, due to the phrase "Compared with the figure of thousands of yuan, the price of the blind box is low, usually only a few dozen yuan and the low unit price can be lower than the initial purchase threshold" [5]. However, usually once an item becomes a symbol, its properties begin to change. For example, the "Labubu doll" that exploded in the blind box market a while ago became popular overnight on the Chinese Internet, and then the price remained high. All kinds of second-hand vendors were crazy about stocking up when selling dolls, which made it impossible for ordinary consumers to buy them. The scarcity of supply and the inventory behavior of various second-hand dealers have led to a sharp increase in the price of such blind boxes, far exceeding the original price of the dolls. But why are there still a large number of consumers willing to buy like this? This requires a continued return to conformity and a sense of identity. "In the context of the blind box economy, the product itself embodies the symbolic element" [6]. This means that people are no longer just buying a blind box, they are striving more for social status. It is precisely because of the scarcity of Labubu blind boxes that consumers are more enthusiastic about obtaining them, thus attracting the attention and envy of others. The Labubu blind box was initially noticed by the consumer group due to hype. For example, many celebrities such as BLACKPINK's Lisa displayed the pendant on social media, causing a "celebrity effect" and creating a herd mentality among consumers, hoping to obtain the so-called "celebrity style".

3. Psychological Mechanisms of Irrational Decision-Making in Different Consumption Scenarios

In different consumption scenarios, consumers' irrational decision-making psychological mechanisms will also be affected differently. Overall, the main factors that are more likely to affect consumers' psychology are online shopping scenarios, live streaming sales scenarios, and those located in high-end consumption venues.

3.1. Online Shopping Scene

In online shopping scenarios, such as China's Pinduoduo, Taobao, JD.com, or some e-commerce platforms like Xiaoxiang Supermarket, merchants often manipulate consumers' perception of product prices through psychological mechanisms such as anchor effects. At the same time, the illusion of scarcity is also a major factor that leads consumers to place orders. Similarly, many misleading information, such as "sold over 100000" provided by merchants, also affects consumers' judgments. "Furnham & Boo described anchor point effect phenomenon in which people confronted with numerical estimation tasks in uncertain problem situations are frequently influenced by previously presented numerical information, resulting in judgment and decision outcomes biased toward the initial information, i.e., the anchor, and judgment bias" [7]. People often see online shopping apps offering price reductions for certain items based on promotional dates. However, if people carefully compare the prices of products over a long period of time with the prices of items before and during the promotion period, it will not be difficult to find that merchants intentionally increased the original prices during the promotion, creating a point effect that made consumers believe they had saved a lot of money during the promotion period. And "Scarcity refers to situations in which there is limited availability of any type of resource (economic resources, products, or time, among others)" [8]. The so-called scarcity illusion is a psychological cognitive bias created by businesses based on the definition of scarcity, which makes consumers feel urgent about information such as "inventory shortage" when shopping online, leading to irrational decisions and impulsive consumption. Not only that, many businesses also purchase "brushing" services for the sake of reputation. "Brushing" is the use of machines to purchase and display a high sales volume, which affects consumers' judgment and makes them believe that this is a highly reputable store, ultimately leading consumers to shop.

3.2. Live Sales and Video Delivery Scenes

Live streaming sales and video sales are also emerging marketing methods and sales channels in recent years. Owing to the COVID-19 pandemic, consumers' need for non-face to face (NFTF) commerce increased rapidly "[9]. Utilizing consumers' psychological mechanisms and timely gratification tendencies, such as the commonly used language "flash sale" in live streaming rooms, to bring a sense of urgency. Moreover, in such scenarios, the live streamers who sell goods usually use their authority to convince consumers. Simultaneously using language such as "family members" to interact with consumers and create emotional resonance. In various e-commerce live streaming rooms, people often see hosts using language methods such as "3, 2, 1 link up!" to create a sense of urgency for users, combined with emotional language such as "professional recommendation", "host selection", "self-use", etc., which make consumers lose their ability to make rational judgments in the host's high emotions, ignore the cost-effectiveness judgment of the item, and give up thinking about whether there is enough demand for the item, and follow the rhythm of e-commerce hosts to place passionate orders. Video delivery usually means that businesses invite bloggers to release videos on major social platforms, such as Bilibili, Tiktok, Xiaohongshu and other media platforms in China, to sell products, and form an authority worship through the blogger's own network identity and a large number of fan groups, so that consumers can ignore whether the blogger's identity really has enough endorsement or authority for the products he sells. This is also a form of soft advertising, because "Information sources act as a medium for efficient advertising as a means of communication of advertisements. There before, the effect on persuasion variables depends on the source's credibility, such as experience, reliability, expense, and business motivation, depending on which source delivers it" [10]. Video delivery is to make consumers fall into the "blind trap" through the promotion of a large number of bloggers.

3.3. High-End Consumption Scene

High end consumption scenarios, such as luxury goods or high-end service venues, are most likely to generate purchasing desires through the framing effect that motivates consumers to identify with society. The same consumers often pay overflow prices far beyond practical value due to the so-called

"brand halo". Many students or workers may, out of vanity, afford luxury goods far beyond their own consumption level, just to show their identity, uniqueness, and gain social recognition by being admired by their classmates and colleagues around them. This consumption desire based on vanity is entirely based on emotional rather than rational logical decision-making. In this type of consumption scenario, the impact of framing effect is also similar to social identity. For example, in this scenario, due to framing effect, people will believe that high-end goods are equal to quality, and using high-end goods is a high-end social group with a high-quality life. This cognitive framework can lead people to always seek luxury goods and high-end services, but in reality, this is not their consumption level, nor is it what they truly need. It is only because they need others to have a high-level understanding of their consumption, resulting in irrational decisions.

4. Relevant Suggestions

4.1. Suggestions to Enterprises

For enterprises, the author recommends avoiding deliberately exploiting consumers' psychological cognitive biases as much as possible, such as deliberately increasing the "original price" of products before promotional activities to create false discounts, and not deliberately creating a "scarcity illusion", so that consumers will not make irrational decisions due to the scarcity of fake products. Not only that, merchants and enterprises should also simplify various promotion rules, such as complex calculations such as "full discount stacking", so that product prices and consumers can clearly and intuitively reflect on the discounts they receive. Similarly, merchants and enterprises should present the product situation as truthfully as possible, without concealing, deliberately brushing positive reviews, or brushing orders, so that consumers can receive the most authentic information and return their right to judge whether there is a real demand for the product.

4.2. Advice to Consumers

For consumers, the author suggests making more preparations and observing the price trend of the product before purchase, in order to identify the cognitive bias brought by the merchant as much as possible and not fall into the trap of impulsive consumption. For example, before purchasing a product, ask people if he/she desires it due to "limited time" or "limited quantity". And before making a decision, consumers can also consider whether the item is necessary. And what is the reason for wanting it? At the same time, consider whether the expenditure on the item can meet own needs. Is it worth it for the product itself, as far as consumers are concerned, to exclude all kinds of fancy external information and factors that can easily lead to impulsive consumption? So as to filter whether the purchase of the product is reasonable.

4.3. Advice to Policy Makers

For policy makers, the author recommends issuing laws that can more regulate marketing behavior, such as regulations prohibiting businesses from creating "false scarcity" or "exaggerating discounts" with highly misleading promotional information, in order to protect consumer rights and make the consumer market more reliable and reasonable.

5. Conclusion

This study discusses the main psychological mechanisms of three types of consumers' irrational decision-making, which are irrational mechanisms driven by analyzing consumers' cognitive bias, such as irrational consumption behaviors influenced by the comparison between the active price and the original price. By analyzing the irrational mechanisms driven by emotions and motivations, such as the irrational consumption behavior caused by consumers' difficulty in accepting the expired coupons obtained, so as to dislike losses. It analyzes the irrational mechanism driven by social interaction. For example, consumers will imitate the behavior of others because of a higher sense of

identity with the crowd, thus making irrational decisions. This study also explores how it affects consumers to make irrational decisions in three different types of consumption environments. For example, when shopping online, people will urgently place orders because of the illusion of scarcity, which leads to rational thinking. For example, when encountering the scene of live streaming with goods, consumers are discounted, because of the worship of authority, that is, out of trust in the anchor, and the emotional resonance driven by the anchor to place orders. For example, in high-end consumption scenarios, consumers may have a desire to buy because of the framework effect. Under the influence of the framework effect, they may pay a high brand premium because they want to satisfy their vanity. The author believes that after reading this article, readers will be able to think more rationally before making consumption decisions and make reasonable and appropriate rational decisions. In this regard, the author also made suggestions to enterprise consumers and policymakers respectively. Enterprises should avoid taking advantage of consumers' psychological cognitive bias as much as possible; while consumers should conduct background investigations on products when buying more money and observe the price fluctuations of products; policymakers should issue more laws that can regulate marketing behavior to protect the rights and interests of consumers. This article uses the method of case analysis to explain the classification of the main psychological mechanisms of consumers' irrational decision-making and analyzes the psychological mechanisms of consumers' irrational decision-making in different consumption scenarios. Specifically, this article argues the irrational mechanism driven by cognitive bias, the irrational mechanism driven by emotion and motivation, and the irrational mechanism driven by social interaction, and explores the environmental impact or social impact factors on consumers in online shopping live streaming or high-end consumption places and further elaborates How these psychological mechanisms and environmental factors affect consumers' irrational consumption decision-making mechanisms.

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