



Analysing the influence of societal and cultural influences on one's economic decision-making process.

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Research Paper

Introduction

To explain a phenomenon, scientists often build models, and to build a model, scientists have to make assumptions that simplify reality. In economics, one of those simplifying assumptions is that consumers are always rational in their decision-making process. Consumers are considered to take decisions that result in optimization and provide them with the maximum utility and satisfaction. Every economic theory is based on this assumption. However, several economists have questioned this assumption and have developed the field of behavioural economics that explains the effects of psychological, cognitive, and emotional factors on the economic decisions of individuals and institutions and how those decisions vary from those implied by classical theory (that assumes consumers are always rational).

However, most research conducted in this field has been based in the United States of America. Almost every experiment and study involve a sample size comprising of Americans mainly and limited studies are conducted on Indians. These experiment results, however, may or may not be universally applicable because of differences between people of different countries in terms of their notions of money, value, savings and background. Most of the experiments and studies conducted in the field of behavioural economics successfully prove that consumers are not always rational. But one does not consider any factors across borders that could impact the results of such studies. Are there any discrepancies that may arise due to differences in culture, ethnicity, race and social influences when similar experiments are

conducted in India? The paper seeks to examine whether these societal and cultural differences can play a major role in the economic decision-making process.

Significance

This research paper has been written to study the effects of differences in culture and social influences, if any, on economic decisions. Once established that consumers are not always rational, one must look at external factors that could have possibly influenced the results of various experiments. The paper aims to explore the possibility of such external factors on economic decision making. The results of the experiments can also be extended to marketing strategies of various multinational companies (MNC's). Some of these companies may or may not account for cultural and social differences when marketing a product. This paper may be able to suggest the influence of such factors on consumer behaviour and hence, help companies market their products accordingly.

Methodology

The research done to consolidate this paper includes mainly primary research. Primary research has been done in the form of Google Survey Forms and experiments in person. The sample size of the experiments was a group of 100 people selected randomly. Experiments done have been guided by those conducted by behavioural scientist Dan Ariely in the USA. However, one must keep in mind that the experiments conducted were limited in number. This is one of the main limitations of the paper as it only conducts three experiments which might not have accumulated enough data to arrive at a concrete conclusion. The sample size of the experiments was also only around a hundred people, mainly from the city of Bangalore which may not accurately account for an equal representation of all types of people, backgrounds and regions.

Experiments and studies

Experiment 1

The very first experiment conducted was to illustrate the zero price effect. The zero price effect is a phenomenon whereby the demand for a good, service, or commodity is

significantly greater at a price of exactly zero compared to a price even slightly greater than zero. Consumers were given a choice between a box of candy and a box of chocolates.

Case 1: Box of Chocolates at Rs 150 and Box of Candies at Rs 100.

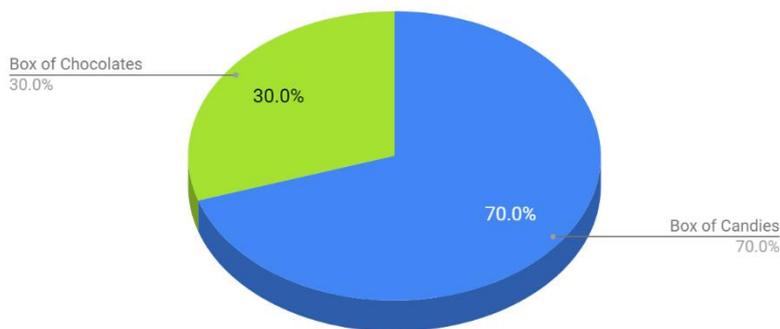
Case 2: Box of Chocolates at Rs 100 and Box of Candies at Rs 50.

Case 3: Box of Chocolates at Rs 50 and Box of Candies at Rs 0. (FREE)

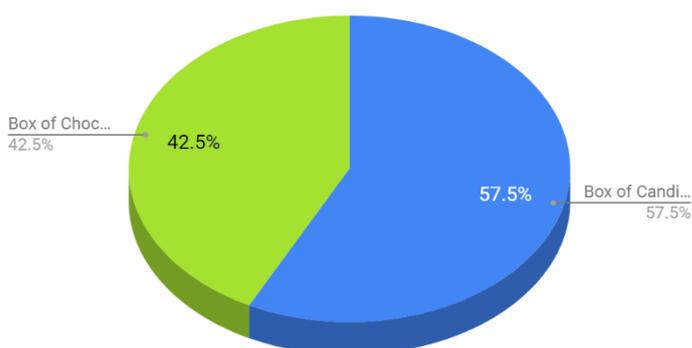
In each case, the box of chocolates and the box of candies reduces by Rs 50. In a similar experiment conducted in the United States, the respondents' demand for the product that was priced at zero increased significantly. The results of the experiment in Bangalore were not very similar.

Results

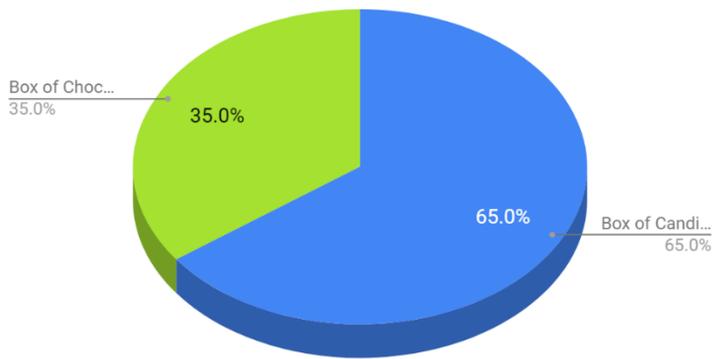
Case 1



Case 2



Case 3



Observations: In all three cases, demand for Box of Candies was higher since the price was lower. However, the demand did not increase drastically due to a fall in the price of a box of candy. In fact, the demand fell when the price was zero. This was an unanticipated result when compared to a similar experiment conducted in the USA where demand was very high at price zero.

Conclusion: Rational economic theory would have suggested that as every other variable between the different cases was constant, the customers should have chosen the Box of candy by the same margin of preference. However, the demand for Box of Candies declined when the price was zero. This was not consistent with the results obtained from the experiment conducted in the USA in which consumer demand increased significantly at zero price. When consumers were asked why they did not opt for a free box of candy, they responded saying that they were unsure of the quality. Therefore, it can be reasonably concluded that Indians might be more quality conscious and do not take “zero” at face value. Instead, they assess the reason for the price being zero; one of the main reasons being that the quality might be poor. This also proves that Indians tend to associate higher prices with better quality.

Experiment 2

Relativity and comparisons are an inevitable part of the human experience and we make almost every economic decision using comparisons and context. We tend to compare almost everything: from educational institutions to cab prices and are easily convinced that if one option is better than the other then it must be the “best” option. Some companies tend to use

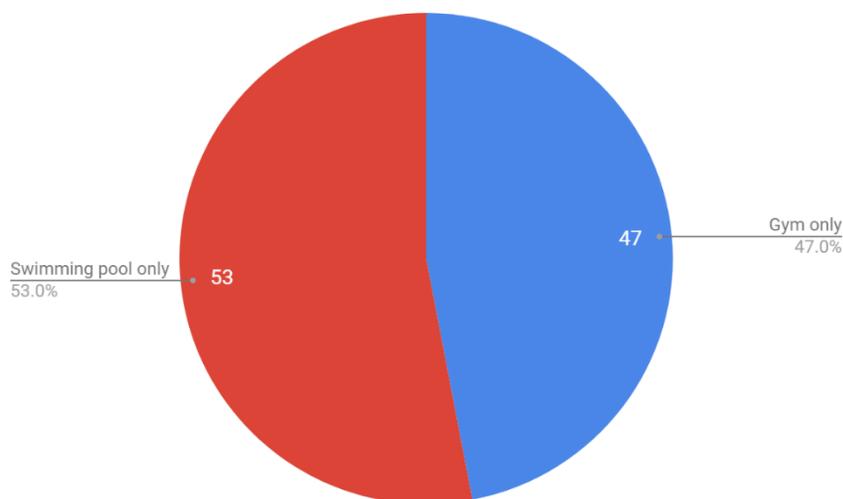
this to their advantage and attempt to deceive customers intentionally by introducing an alternative option just to make another option seem more beneficial. As human beings, we immediately make comparisons to pick the “better” deal which may or may not be the most beneficial to us.

In the second experiment, consumers were given hypothetical packages in the form of brochures to choose from for the Bangalore Club Membership. The brochures were identical in colour, font type and font size. The people chosen for the experiment were the same hundred people randomly selected and were presented the different brochures with a time gap of sixty minutes.

Case 1: The brochure presented to them looked like this:

Type of Club Membership	Price (Rs’')	Time Period
Membership with access to the gym	20,000	12 months
Membership with access to both gym and swimming pool	30,000	12 months

The results were the following:

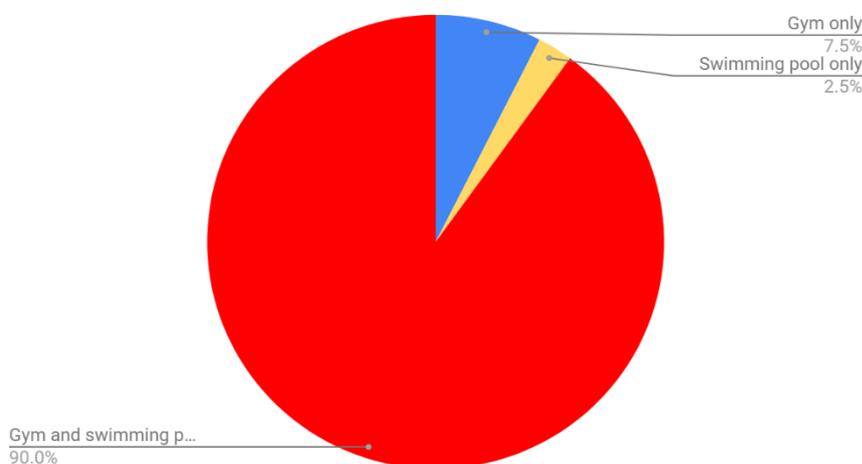


Case 2: The brochure presented to them looked like this:

Type of Club Membership	Price (Rs)	Time Period
Membership with access to the gym	20000	12 months
Membership with access to the swimming pool	30000	12 months
Membership with access to both gym and swimming pool	30000	12 months

Results

Bangalore Club Brochure



Observations: Keeping every other variable constant, the only difference between Case 1 and Case 2 was the availability of a third option. In Case 1, the division of choice was quite close. However, in case 2, 90 out of 100 people opted for the membership with access to both the gym and pool. Due to the introduction of a third option, the demand for membership with only gym fell drastically from 47% to 7.5%. A similar experiment conducted in the USA yielded very similar results in which consumers drifted away from the gym only option.

Conclusions: Consumers, both in India and the USA, tend to make comparisons while making decisions. Instead of looking at the price and package in absolute terms, they tend to look at it relatively. The human brain is easily manipulated by an option that companies often use as a decoy. Instead of looking at the value derived from the deal, consumers tend to look at what is more “beneficial” in comparison to another option. This often leads to irrational decision making, based on comparisons and not absolute value and price derived.

Experiment 3

The third experiment was conducted to prove the concept of first impressions and highlight arbitrary coherence in the minds of consumers. Although initial prices can be "arbitrary," once those prices are established in our minds, they will shape not only present prices but also future ones (thus making them "coherent") The experiment involved three main steps:

1. Consumers (50 people) were asked to write down the last three digits of their phone numbers. (This would be called the anchor)
2. A list of items was read out to the respondents.
3. The respondents are asked to write down an amount they would be willing to pay for each of the items read out.

The list of items used for the experiment were to study the concept of first impression of prices and also observe any cultural biases that consumers may have. The reason for choosing a mix of comparable western and Indian products was to examine any difference in their valuations.

The list of items used for the experiment:

- a. Apple pie
- b. A box of Indian Sweets
- c. Kurta
- d. Shirt
- e. An Indian doll house set
- f. Lego set

Observations: The respondents with anchor numbers in the top 20% (799-999) placed bids from 216% to 346% higher than those with numbers in the bottom 20% (99-199). As an example, the top 20% bid an average of Rs 1455 for a Kurta. This is consistent with a similar experiment conducted in the USA. However, data that was not consistent was the value placed upon products like apple pie, shirt and a lego set. The Bangalore residents tended to value these three products much lower, on average, compared to the other three products. When the American citizens were provided with a similar list, they valued American and Indian products at similar prices, not depicting much of a cultural bias. For example, an Indian box of sweets (usual average price of Rs 804 per kg) was valued way higher than an apple pie (usual average price of Rs 797 per kg) even though their usual prices are very close.

This further highlights the concept of a probable cultural bias that Indians may have or value their personal preferences more than the price they pay for a particular product.

Conclusion: Once prices are established in our minds, they shape not only what we are willing to pay for an item, but also how much we are willing to pay for related products, which makes them coherent. However, Indians were more likely to associate a higher value to things that they are familiar with and are closer to. For example, they were more likely to value a box of Indian sweets more than an apple pie. On the contrary, Americans did not tend to value American goods more than Indian goods. This could, perhaps, also be a matter of taste and preferences that Indians had over Western Products. Therefore, economic decisions made are not purely based on price but also have a familiarity or preference connotation attached to it. For example, an Indian consumer is more likely to price a higher value on a Kurta of average cloth quality than a shirt of better cloth quality.

Discussion

In my analysis of the experiments and their results, I observed that although most responses from consumers remained standard (similar to those of American consumers), there were some notable deviations. For example, in experiment 1, Indians were more likely to associate higher prices with better quality. This could have been due to previous experiences of low-price products yielding bad quality. This suggests that there is a possibility of a societal and experience difference yielding different results from studies. In experiment 2, consumers of both nationalities made similar decisions based on comparisons. In experiment 3, although the consumer responses were similar, Indians were more likely to value Indian products more than American products which may be due to the concept of familiarity, a matter of taste and preference or simply pride in one's country's product. Hence, there are some differences that may come to the forefront when conducting similar study in different countries with different cultures and societal factors.

Conclusion

In conclusion, this paper suggests that societal changes do impact one's economic decisions. More often than not, any decision we make is based on a previous experience. Previous

experiences of every individual are likely to be different, especially of those coming from different countries, cultures and ethnicities. As seen in the experiments above, experiments one and three showed some deviation from the American study results which can lead us to conclude that external factors, other than the psychology of the mind and the price, do impact one's economic decisions. Therefore, it may be safe to assume that there are possibilities of societal influences on economic decisions as depicted by two out of three experiments. This may also have implications for companies that are not accounting for differences in societies in their marketing strategies. .

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