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# BEHAVIOURAL ECONOMICS IN CONSUMER SPENDING: INSIGHTS FOR MODERN COMMERCE

**Ms. Snigdha Sidharth[1*], Dr. Abhinav Chaudhary[2], Maheswari P[3], Dr. Priti Gupta[4], Dr. Ashok Vardhan Garikimukku[5], Saroj Verma[6]**

*[1]Assistant Professor, Department of Economics, JSPM University, Pune.*
*[2]Assistant Professor, Department of Commerce, Rajdhani College, University of Delhi, New Delhi.*
*[3]Assistant Professor, Faculty of Management, SRM Institute of Science and Technology.*
*[4]Assistant Professor, P.G. Department of Economics, Bhupendra Narayan Mandal University (West Campus), P.G. Centre, Saharsa, Bihar.*
*[5]Professor, Department of English, DVR & Dr. HS MIC College of Technology, Andhra Pradesh.*
*[6]Assistant Professor, School of Management Studies, CGC University, Mohali, Punjab.*

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*Corresponding Author: Ms. Snigdha Sidharth*

## ABSTRACT

*Consumer behaviour is a crucial variable in economic activity and business performance. Traditional economic theories have been based on the assumption that consumers are rational and that they are dealing with full information and maximizing utility. But behavioural economics shows that the psychological, emotional and social factors play a significant role in the buying process. This paper looks at the impact of behavioural economics on consumer behaviour and its implications for the business world today. The research emphasizes the role of important behavioral concepts that may cause consumers to deviate from rational decision-making, including bounded rationality, loss aversion, mental accounting, anchoring, framing effects, social influence, and present bias. This study is descriptive and analytical where the data in the research is derived from primary and secondary data sources. Primary data was gathered through the use of structured questionnaires which were administered to consumers of different demographic characteristics and secondary data was gathered from academic literature, industry reports, published research in the field of consumer behaviour and the field of behavioural economics. The results show that the cognitive biases, promotional methods, pricing methods, brand perceptions and digital marketing interventions are highly influential in shaping consumers' behaviour. Discounts, limited-time offers, social proof, personal recommendation, and online reviews have a huge impact on purchasing decisions and purchase intentions. The study highlights the potential of applying behavioural insights to develop successful marketing strategies, connect with customers and build a customer-centric business. Understanding the behavioural trends helps businesses make informed decisions about creating innovative products and services that align with consumer expectations and enhance their marketing strategies to navigate the competitive landscape effectively. The study has revealed that the BE in the commercial decision-making can provide a better understanding of consumers' motives and contribute to the effective business. The results offer valuable insights for marketers, retailers, policy makers and researchers who wish to understand the contemporary consumer behaviour in the current digital and*

***dynamic economy.***

**KEYWORDS:** Behavioural Economics, Consumer Spending, Consumer Behaviour, Cognitive Biases, Modern Commerce, Marketing Strategy, Purchase Decisions.

## INTRODUCTION

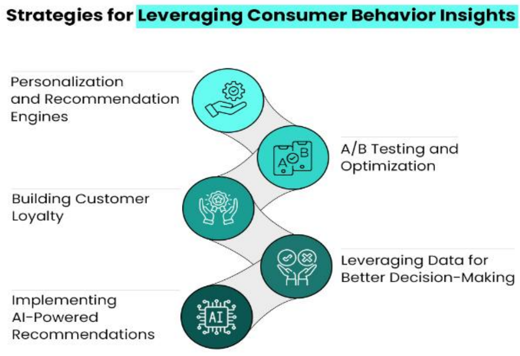
Consumer spending is closely linked to economic growth and trends in the market, to business growth, choices in production and more. Theories of the traditional economic approach have always assumed that consumers are rational, that they are rationalising and evaluating received information, and that they are making rational decisions to maximise their utility. But, real-life consumer purchasing behaviour doesn't always match up to this assumption, as people are guided by psychological, emotional, social and cognitive factors that affect their buying decisions. Such deviations have paved the way for the development of the behavioural economics discipline, which is a vibrant and significant area of economics and psychology.

Behavioural economics does not attempt to explain how individuals should make decisions in an absolute, rational sense but how they do make decisions in a real world context. It acknowledges that consumers have to deal with several cognitive biases, heuristics, feelings and environmental factors which impact their monetary decisions.

Common factors that can affect consumer buying behaviour are loss aversion, mental accounting, framing effects, overconfidence, anchoring, social influence and present bias. These behavioural dispositions can cause actions that might not benefit consumers' financial goals but are in line with their psychological preferences and perceptions.

With the digital revolution, the way consumers make choices has evolved even more with the development of digital commerce, online payment systems, social media marketing, and personalised ads. Today's consumers receive more information, offers and digital stimuli than ever before, which can have a powerful effect on their purchasing decisions. For e-commerce companies, behavioural data is used to create user experiences, pricing models, recommender algorithms and promotional offers that will push customers towards making a purchase. In recent years, the behavioural underpinnings of consumer spending have assumed greater significance for firms in their effort to create successful marketing strategies and customer relationships.

Today in business, behavioural economics lends useful insights into how to understand the different reactions of consumers to offers, loyalty programs, product positioning, scarcity messaging, and digital advertising. Companies can use these insights to better engage their customers, thereby boosting their satisfaction and designing better marketing interventions. Meanwhile, policymakers and consumer protection agencies can incorporate elements of behaviour to encourage responsible financial behaviours, to encourage saving, and to safeguard consumers from manipulative market practices.




***Source: https://blog.mastroke.com/marketing-sales/consumer-behavior-in-ecommerce-key-insights-impact-and-strategies-for-growth/***

Because of the increasing importance of behavioural economics in today's markets, this subject has created considerable academic and practical interest. Psychological factors have been extensively researched in recent years in relation to consumer decision-making, consumer expenditure and financial decision-making. It is particularly important to have an understanding of these behavioural influences in the current context of rapid change in technology, consumer habits and business practices. Organizations that have taken the time to understand the behavioural aspects that affect consumer spending can better understand consumer behaviour and make the appropriate decisions.

This research aims to gain insight into the application of behavioural economics in consumer spending behaviour and its implications in today's commerce. The research is to explore important behavioural factors that influence customers' purchasing decisions and shed light on the impact on a company of understanding these factors and of how they can be used to increase the effectiveness of marketing, customer engagement and overall business performance in today's competitive business environment.

### *Background of the study*

The behaviour of consumers has always been a critical factor in the trade, marketing, and economic activity of a nation, and consumer decisions have a significant impact on the performance of businesses, the character of the market and the economy. The following is based on the assumption that consumers are rational people whose decision on how to spend their money is based on information they have made their best effort to assess and determine is a good or bad choice. Consumer decision making is often influenced, however, by emotions, cognitive limitations, social influences, habits, and psychological biases, which may mean that the consumer's decision making does not result in a strictly rational behaviour in the real world. These observations have led to the development and evolution of behavioural economics, an interdisciplinary branch of economics and psychology that attempts to understand peoples' real world economic choices.

The adoption of behavioural economics goes against the idea of rational behaviour and shows that consumers are influenced by several biases and heuristics in the purchase process. Loss aversion, mental accounting, anchoring, framing effects, overconfidence, present bias, and social conformity are just a few of the factors that can influence spending habits. In many situations where there is information overload and a variety of choices, consumers will use mental shortcuts to make it easier to make a buying decision. This means that the perception and emotion can be more important than the costs and benefits, which may affect purchasing behaviour.

Digital commerce has also changed the consumer decision making process in the quick expansion of digital commerce. With the rise of online shopping platforms, mobile apps, digital payment solutions, social media marketing, and tailored advertising, companies have new ways to connect with their customers. Meanwhile, these technologies have magnified the power of behavioural factors with the ability to make personalized promotions, facilitate instant purchasing options, adjust prices based on demand, and offer algorithm-based suggestions. In a digital environment, there is a tendency to buying on impulse, to paying for subscriptions, to spending more because it is easy and there is a constant exposure to marketing.

The psychology of customers plays a crucial role in today's context in designing successful marketing strategies and boosting customer interaction. In the commercial realm, behavioural science is used in a multitude of different methods to boost sales, such as loyalty programmes, time-limited offers, tailored recommendations, product placement and advertising. The use of behavioural economics is particularly important in competitive markets where customers' preferences and decision processes are all important to a business' success.

Over the past few years, it has become evident that there is a need to consider factors that are not just income, prices, and demographics to explain consumer spending times. In all categories of products and in all market segments, the psychology is very important for influencing the consumption pattern. To understand the behavioural effects is essential if companies want to improve customer satisfaction, make their marketing more effective and promote responsible consumption. Moreover, the use of behavioural science in designing financial well-being and consumer choice-enhancing policies and interventions is growing among policymakers and consumer protection agencies.

In this background, the present study is an attempt to explore the effect of behavioural economics on consumer expenditure and to understand the effect of psychological problems and decision-making process on consumer buying process in the modern market place. The study mainly aims to provide some insights for marketers, companies, policymakers and researchers to understand and address the changing nature of consumer behaviour in the modern economy.

### *Justification*

Consumer spending behaviour is a factor that influences business performance, market growth and the economic development. In order to discuss traditional economic theories one needs to make some basic assumptions, namely, that the consumer is rational, and subject to full information, and that the consumer is aiming for utility maximization. In practice, however, there are many motivations people have to purchase a product, which is not necessarily rational, and can involve psychological, emotional and social factors. It can be useful to consider the behavioural economics framework in the study of deviations, as it takes into account the role of cognitive biases, heuristics, emotions, and context in consumer decision-making.

The consumer decision making process has undergone a complete transformation with the advent of digitization of commerce, the use of social media, personalized marketing strategies and ecommerce platforms. There is a lot of information available for modern consumers and they are exposed to several options of promotion and choice to which they are more susceptible to the behavioural effects such as anchoring effect, framing effect, loss aversion, impulse buying, social proof. This knowledge of these behavioural patterns has become more crucial than ever for companies to create effective marketing strategies and improve customer engagement.

The rationale for this research is that organisations need behavioural insights to be employed in business decisions. The research explores the concept of behavioural economics in consumer spending, giving a better insight into the factors which affect the purchasing behaviour in today's markets. The outcomes can be used to guide business and policy makers on how to make their products more customer-oriented, on how to re-position their products, on how to better satisfy the consumer welfare and on how to foster responsible consumption.

Furthermore, the study adds to the existing knowledge by linking the pure economic approach to actual consumers behaviour. It offers a practical approach to understanding some of the behavioural concepts that can be used to improve business outcomes, while also helping to ensure ethical and sustainable marketing practices. As the world becomes more competitive and technologically advanced, it is important to understand consumer spending behaviors that will lead to commercial success and policy decisions in the long run.

### *Objectives of the Study*

1. To explore how behavioural economics theories affect the purchase decision of goods/services in the present market.
2. To uncover the key cognitive biases and psychological aspects that can influence consumers' purchasing decisions.
3. To examine the effects of heuristics, framing effects, and loss aversion on choice and spending behaviour.
4. To explore the influence of social influences, peer effects and consumer perceptions on spending behaviour.
5. To evaluate the impact of digital platforms, personal marketing and e-shopping on consumer decision-making process.

## LITERATURE REVIEW

Behavioural economics is a branch that has become important in the study of consumer decision making which combines Psychology and Economics. The principles of traditional economics theories are based on the assumption that consumers are rational and make decisions to maximize utility. But behavioural economists have stated that there are other cognitive biases, emotions, heuristics and social factors that can affect consumer decisions.

Prospect Theory (Kahneman & Tversky, 1979) first showed that individuals assess gains and losses differently, and that they often are loss averse. They found that people react more to losses than to similar gains, affecting making decisions about buying and spending. Kahneman (2011) also described the different ways the intuitive and analytic thinking systems influence consumer judgements, and the importance of mental shortcuts in real-world economic decisions.

Thaler (1985) proposed that consumers separate and process financial transactions differently based on the source of funds and purpose. This theory may be the reason why consumers might spend windfall earnings more often than normal earnings. In more recent work, Thaler and Sunstein (2008) showed how choice architecture could be subtly altered to shape consumer behaviour without curtailing their freedom of choice. Their work has been a great influence on marketing strategy and policy intervention.

Ariely (2008) found that consumer choices are frequently irrational, and consequently predictable. Based on several experiments, Ariely demonstrated the impact of pricing, anchoring and social norms on purchasing decisions. In a similar fashion, Simon (1955) proposed the notion of bounded rationality, which means that consumers make decisions that are satisfactory, rather than optimum, due to the information processing time and limitations.

Tversky and Kahneman (1974) have studied the role of heuristics in consumer spending. In a study of mental shortcuts used in decisions, they found three mental shortcuts that are commonly used: availability, representativeness, and anchoring heuristics. The heuristics can cause consumers to make biased judgments on product quality, brand value, and spending priorities.

Consumer emotions also have a significant influence on spending. Loewenstein (2000) noted that a rational assessment of an emotional response is often out of the picture when making a purchasing decision. Emotions like excitement, fear and anticipation can have a significant effect on impulse buying and consumption. To this end, Lerner, Li, Valdesolo, and Kassam (2015) have shown that certain emotions have different impact on risk perception and financial decision making.

Social factors also have been seen as significant factors in consumer spending. Cialdini (2009) found that social proof and conformity greatly influence consumers' preferences and purchasing decisions. When consumers make decisions about their buying, they depend on others' buying decisions and suggestions, especially in uncertain condition. Bandura (1986) also accounted for consumer learning by social observation, which refers to the impact of family, peers and media on consumer consumption behaviour.

Behavioural biases are gaining more significance in digital commerce settings. Dhar and Gorlin (2013) discovered that consumers who shop online are vulnerable to framing, default options, and suggestions. As e-commerce platforms have emerged and gained popularity, the role of behavioural insights has grown in significance when it comes to influencing buying habits. Likewise, Lambrecht and Tucker (2013) reported that consumers' spending habits are affected by targeted digital advertising, which relies on attention biases and personalization features.

Research conducted on consumers' financial behaviour suggests that problems of self-control often play a role in the consumer's spending. Laibson (1997) has developed the idea of “hyperbolic discounting” to help understand why consumers might prefer instant satisfaction over the long-term financial gains. This behaviour leads to a greater use of consumer credit, poor saving, and overspending. O'Donoghue and Rabin (1999) also explored present-biased preferences and its consequences for consumer welfare.

The applications of behavioural economics have been highlighted in the research work in the field of retail marketing. According to Kotler and Keller (2016), firms can build effective marketing strategies and customer engagement programs when they know the psychology of their consumers. Similarly, in the modern era of consumer behaviour analysis and marketing decision making, psychological and social factors are critical as pointed out by Solomon (2020).

Behavioural economics has been recently discussed with regards to digital payments and financial technology. Ozili (2018) determined that digital payment systems change the way people spend money and make their spending easier because it stops them realizing the psychological cost of using cash. Easy and quick payments can lead to more consumption. Likewise, Soman (2001) found that payment practices have a significant impact on the consumers' perception of expenditure and how much control they have over it.

Based on the available literature, it can be concluded that the overall picture indicates that there are various cognitive, emotional, social and technological factors influencing consumer spending behaviour, and that these factors interact with one another. Behavioural economics can help to explain these factors, and can be applied in the business world to gain insights into consumer preferences, optimize marketing strategies and improve the customer experience in the modern commercial world.

## MATERIAL AND METHODOLOGY

### *Research Design:*

This study employed the descriptive and analytical approach in studying the impact of the principles of behavioural economics on consumer spending decisions in the modern commerce. The study aims to identify the psychological phenomena, cognitive bias, heuristics, influences in social behaviour and emotional responses which influence purchasing behaviour of various consumer groups. The study seeks to examine the relationship between the behavioural tendencies and spending behaviours by adopting economic, psychological and marketing concepts. The research has a mixed method of both quantitative and qualitative method in order to have a complete understanding about consumer decision making in today's market environment.

### *Data Collection Methods:*

Both primary and secondary sources of data are used in the study. The primary data was gathered using a structured questionnaire which was administered to the consumers belonging to various groups having different age groups, income groups, education level and occupation. The questionnaire was structured to collect data on spending habits, buying motives, acceptance of promotional offers, impulsive buying tendencies and consumption attitudes. In addition, informal interviews with selected consumers were carried out to get deeper insights into their spending behaviour. The secondary data was gathered from peer reviewed journals, books, research reports, government publications, market surveys, industry reports and reliable online databases on behavioural economics, consumer behaviour, retail marketing and digital commerce. These sources were used to give a theoretical basis and empirical evidence for the study.

### *Inclusion and Exclusion Criteria:*

This study involves consumers at age 18 and above, who are actively involved in decisions regarding purchases, and engage in online or in-store shopping. A diverse sample of consumer behaviour was obtained by having responses from both urban, semi-urban and rural areas. The secondary data review was performed on all academic publications, research studies, and reports directly related to behavioural economics, consumer spending, and modern commerce. Data excludes those under the age of 18, people who do not make their own purchasing decisions, and incomplete surveys. Analysis excluded secondary sources which are not academically credible, duplicate publications, outdated materials with limited relevance and studies which are not relevant to consumer spending behaviour.

### *Ethical Considerations:*

The research was carried out in an ethical manner as defined by research standards. The survey was self-administered and respondents were asked for informed consent before they completed the survey. Participants were briefed on the research and assured that their responses would be confidential and would only be used for academic research purposes. No personal data was gathered, and respondents' anonymity was respected throughout the research. The researcher maintained the accuracy, transparency, and objectivity in the analysis and interpretation of data. Academic integrity and plagiarism were respected by providing proper citation (paraphrasing and referencing) of all secondary sources.

## RESULTS AND DISCUSSION

### *Results:*

The impact of behavioural economic factors on the consumer's purchasing decision in contemporary trading was studied. The data was collected from 200 respondents to understand consumer spending habits and how psychological factors, societal influences, and digital shopping experiences affect them. The results show that beyond economic factors like income and price, the consideration of behavioural factors is an important influence on the purchase decision.

### *1. Demographic Profile of Respondents*

Table 1 presents the demographic characteristics of the respondents.

***Table 1: Demographic Profile of Respondents (N = 200)***

| Variable | Category | Frequency | Percentage (%) |
|---|---|---|---|
| Gender | Male | 92 | 46.0 |
| | Female | 108 | 54.0 |
| Age | 18–25 Years | 58 | 29.0 |
| | 26–35 Years | 72 | 36.0 |
| | 36–45 Years | 44 | 22.0 |
| | Above 45 Years | 26 | 13.0 |
| Occupation | Student | 42 | 21.0 |
| | Employee | 96 | 48.0 |
| | Business | 38 | 19.0 |
| | Others | 24 | 12.0 |

Most of the respondents were from the 26-35 age group (36%), which highlights that this age group is the majority of economically active consumers. The majority of the respondents were female (54%).

### *2. Influence of Behavioural Factors on Consumer Spending*

The respondents were asked to rate on a 5 point Likert scale (never, seldom, sometimes, often and very often) each behavioural factor that was thought to influence the eventual purchase decision.

***Table 2: Mean Scores of Behavioural Factors Affecting Consumer Spending***

| Behavioural Factor | Mean Score | Rank |
|---|---|---|
| Promotional Discounts | 4.42 | 1 |
| Social Media Influence | 4.18 | 2 |
| Brand Loyalty | 4.05 | 3 |
| Peer Recommendations | 3.96 | 4 |
| Scarcity Messages | 3.82 | 5 |
| Emotional Appeals | 3.75 | 6 |
| Default Purchase Options | 3.54 | 7 |

The results show that promotional discounts were the most powerful behavioural driver affecting purchasing behaviour, followed by social media influence and brand loyalty. The findings indicate that consumers can be influenced by perceived savings as well as digital marketing stimuli, not only by rational assessments.

### *3. Impact of Cognitive Biases on Spending Behaviour*

***Table 3: Consumer Responses on Cognitive Biases***

| Cognitive Bias | Agree (%) | Neutral (%) | Disagree (%) |
|---|---|---|---|
| Impulse Buying Due to Limited-Time Offers | 68 | 18 | 14 |
| Spending More During Festive Seasons | 72 | 15 | 13 |
| Preference for Familiar Brands | 66 | 20 | 14 |
| Following Popular Consumer Trends | 61 | 23 | 16 |
| Reluctance to Switch from Existing Products | 58 | 24 | 18 |

Many of those who responded noted that special offers and holiday sales prompted extra purchases. The results underscore the existence of cognitive biases in consumer decision-making including loss aversion, anchoring and status quo bias.

### *4. Relationship Between Social Influence and Spending Frequency*

***Table 4: Correlation between Social Influence and Spending Frequency***

| Variable | Correlation Coefficient (r) | Significance (p-value) |
|---|---|---|
| Social Influence and Spending Frequency | 0.641 | 0.000 |

The value of the correlation coefficient is +0.641 which shows a strong positive correlation between social influence and frequency of spending. The p-value is statistically significant, and its value confirms that the recommendations from friends, family, influencers or online communities have a considerable impact on purchasing behaviour.

### *5. Consumer Preference for Digital Commerce Platforms*

***Table 5: Factors Influencing Online Purchase Decisions***

| Factor | Respondents (%) |
|---|---|
| Discounts and Cashback Offers | 78 |
| Product Reviews and Ratings | 74 |
| Ease of Payment | 69 |
| Personalized Recommendations | 63 |
| Free Delivery | 71 |
| Brand Reputation | 65 |

The most influential factor in online shopping decisions was discounts and cashback offers. Product reviews and ratings were also found to be important factors that influenced consumer confidence and purchase intention.

### *Discussion:*

The results show that behavioural economics offers insights into consumer behaviour in the modern era. It is concluded from the results that some psychological and social factors also play great role in the decision making of consumers, which is not assumed in the traditional economic theory which assumes that consumer makes rational decision. Purchasing decisions are heavily influenced by promotional incentives, social media activity and brand awareness.

The concept of buying things when they are in short supply is in line with the scarcity bias and loss aversion, whereby people worry about things that are great chances that they do not take advantage of. Similarly, social recommendations highlight the worth of social proof in consumer decisions. Digital commerce platforms have amplified such practices, such as with personalised marketing, targeted ads and algorithm-driven suggestions.

The study also reveals that the consumers sometimes have to make quick decisions rather than make a detailed judgment about the product. Brand loyalty and familiarity help to ease decision-making and lead to repeat purchases. People rely on online reviews and ratings as a cognitive shortcut for making their product decisions and evaluating the value.

The overall findings indicate that designing the marketing strategies based on the principles of behavioural economics can be helpful to improve the customer engagement in the modern businesses. Ethical application of behavioural insights can enhance customer satisfaction, cement brand bonds and foster better commerce ecosystems whilst safeguarding consumer welfare.

### Limitations of the study

There are some limitations in this study that should be taken into consideration when interpreting the results obtained. First, there are many factors which influence consumer spending behaviour, both economic, social, cultural, and psychological, so it is hard to say how much behavioural economic principles influence consumer spending behaviour alone. Secondly, the responses received from the respondents may be subject to personal perception, recall bias and social desirability bias, all of which can affect the accuracy of the response received. Third, the study takes place in a particular spatial, geographic region and time frame and results may not be generalizable to other populations and/or economic environments. Further, as the market conditions, inflation, technology and customer preference changes over time, the results might not be applicable over a long period. Other psychological factors that could impact consumer decision-making were not fully explored in the study, and selected behavioural biases were used. After all these restrictions, the research is still of great value in the understanding of consumer spending and can be used as a basis for further research in modern commerce.

### Future Scope

Consumer spending and behavioural economics offer an interesting area of research for future studies, as consumer markets change alongside the introduction of new technology, digital commerce and new socio-economic environments. The study might extend into new technologies, such as artificial intelligence, machine learning, and predictive analytics, and how they affect consumers' buying choices and expenditures. Researchers can analyse the effect of behavioural bias on online marketplace, social commerce and mobile payment behaviour. It may be possible to better understand consumer behaviour differences by comparing various demographic groups, geographical areas, income levels and cultural backgrounds. Future research should consider the effectiveness of behavioural interventions, nudges and personal marketing strategies that can be used to promote responsible consumption and financial health. Moreover, the increasing significance of sustainability and ethical consumption creates possibilities to study the role behavioural economic theories play in facilitating eco-ethical buying decisions. longitudinal studies of change in consumer behaviour over the years and in periods of economic uncertainty would also enhance the study of consumer spending behaviour in today's commerce. This can help financial, private and public institutions to create a more relevant consumer engagement strategy and contribute to sustainable economic growth.

## CONCLUSION

In recent years, the framework of behavioural economics has proved useful in the analysis of consumer spending behaviour in contemporary markets. Theories of traditional economics tend to assume the consumer is a rational decision maker with complete information and logical comparisons of alternatives. But, in reality, the people's buying habits are often affected by a number of psychological, emotional and social factors that affect their buying decisions. Loss aversion, anchoring, mental accounting, framing effects, herd behaviour and present bias all have a significant impact on spending behaviour on a variety of product groups and market situations.

The research emphasizes that consumers don't necessarily behave in a way that further enhances economic utility. Rather, they tend to use cognitive shortcuts and emotional reactions to judge products, prices, promotions, and financial commitments. Companies who are aware of these behavioural patterns can create better marketing campaigns, pricing strategies, customer engagement programs, and digital commerce experience. The use of personalized recommendations, targeted advertising, loyalty schemes and behavioural nudges are examples of how behavioural economics is being applied in commercial decision making and this is growing in popularity.

Furthermore, in the world of today, with the advent of e-commerce, digital payments and data-driven marketing, behavioural insights are more relevant than ever before in the business world. Companies that apply behavioural concepts within their business models will have the edge in grasping customer preferences, enhancing the customer experience and establishing lasting connections with customers. Ethical considerations also apply as to not influencing consumer decisions, but rather assisting consumers in making a decision about their behaviour, however.

In conclusion, behavioural economics is a way of understanding the behaviour of consumers when purchasing goods and services, filling the gap between economic theory and human decision making. It offers useful insights for marketers, retailers, policy makers and financial institutions alike to be more effective in adapting to changing consumer preferences in a very digital and competitive consumer landscape. The research in this area will further support the development of the business in an orientation to the needs of the consumer, as well as sustainable development of the business.

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