A Comparative Evaluation of Behavioral Economics Approaches to Consumer Decision-Making under Uncertainty

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Abstract. This study presents a comparative evaluation of behavioral economics approaches in understanding consumer decision-making processes under uncertainty. As economic environments grow increasingly volatile, comprehending the psychological factors influencing consumer behavior becomes paramount. Employing a multi-methodological framework that integrates empirical analysis and theoretical modeling, our research delineates the effectiveness of various behavioral models—namely Prospect Theory and Nudge Theory—in predicting consumer responses to market fluctuations. The findings reveal significant disparities in predictive accuracy and practical applicability across the examined models, highlighting the necessity for tailored interventions in economic policy design. This research contributes to the ongoing discourse on enhancing economic resilience through informed consumer behavior strategies.

Keywords: Behavioral Economics, Consumer Decision-Making, Uncertainty, Prospect Theory, Nudge Theory, Economic Policy, Market Volatility, Predictive Models

Introduction

In the contemporary economic landscape, characterized by rapid changes and global uncertainties, understanding consumer decision-making processes is more critical than ever. The complexities surrounding consumer choices have emerged as a significant area of research within economics, driven largely by factors such as market volatility, technological advancements, and evolving societal norms. As we move toward 2024-2026, these dynamics will continue to challenge traditional economic theories that often assume rational behavior. The relevance of behavioral economics, particularly in examining how psychological and emotional factors influence consumer decisions, cannot be overstated. Behavioral economics has expanded the understanding of economic decision-making beyond the classical model of rational actors, incorporating insights from psychology to better explain the deviations from expected utility theory. Two prominent frameworks within this domain are Prospect Theory, which explores how consumers perceive gains and losses, and Nudge Theory, which demonstrates the impact of subtle policy shifts on consumer choices. However, empirical comparisons of these models in practical scenarios remain limited, leaving a gap in comprehensive understanding and application. This paper aims to address this gap by providing a detailed comparative analysis of these behavioral economics approaches, specifically in the context of consumer decision-making under uncertainty. We employ a multi-methodological framework that integrates both theoretical modeling and empirical analysis to evaluate the effectiveness of each approach in predicting consumer behavior during periods of economic fluctuation. This research methodology not only allows for an in-depth understanding of the behavioral responses but also provides insights into how these theories can inform policy measures aimed at enhancing economic stability The structure of the paper is as follows: we first delineate the theoretical foundations of Prospect Theory and Nudge Theory, followed by a description of our empirical methods. Next, we present our findings, discussing the predictive accuracy and practical implications of each approach. Finally, we conclude with recommendations for policymakers and areas for future research.

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