

HOW MENTAL ACCOUNTING IS SIGNIFICANT IN PURCHASE DECISIVENESS?

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ABSTRACT

Accounting is the systematic recording of financial transactions concern to a business. It also refers to the process of summarizing, analyzing and reporting the transactions. Mental accounting is a part of accounting which refers to the tendency people to separate their money into different accounts based on miscellaneous serving as a basis for evaluation. It also include the source of the money and resulting from one's intention for each account. The theory suggests that individuals are likely to assign their different functions to each asset group. By that the result of which can be an inconsistent and causing harm of behaviors. Every people allocates their budget mentally before attempt a purchase. In purchase decision making mental accounting plays a decisive role. Thus after considering this psychological fact of people, the present study tries to discover the importance of mental accounting in purchase decision. The present study doesn't limit to only exploration of significance of mental accounting in purchase decision but also tries to state mental accounting as a dynamic stage in buying decision making process.

Keywords – accounting, mental accounting, consumer buying decision.

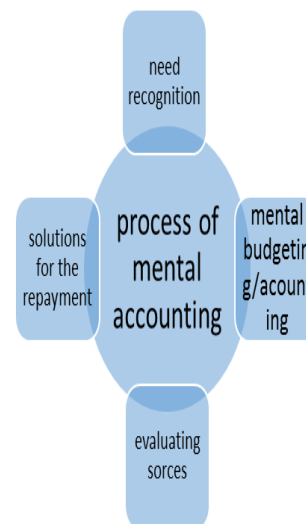
I. INTRODUCTION

Mental accounting is the set of perceptive operations used by individuals and households to organize, evaluate, and keep path of financial activities. The primary reason for studying mental accounting is to advance our understanding of the Psychology of choice. In general, understanding mental accounting processes helps us to understand choice because

mental accounting rules are not neutral. That is, accounting decisions such as to which category to disperse a purchase, whether to combine an outcome with others in that category, and how often to balance the `books' can affect the supposed attractiveness of choices. They do so because mental accounting disrupts the economic notion of fungibility. Money in one mental account is not a perfect alternate for money in another account. Behavioural finances is a reasonably new field of study. Behavioural finance, a sub-field of behavioural economics, suggests psychology-based theories to explain stock market irregularities, such as severe rises or falls in stock price. The purpose is to recognize and understand why people make certain financial choices. Within behavioural finance, it is assumed the information arrangement and the features of market participants thoroughly influence individuals' investment decisions as well as market results. The idea is to look at the causes that people make the money choices they do and those choices are often irrational. Behavioural finance applies psychological theories, particular those related to cognition and behaviourism, to economics and personal finance. Behavioural finance is all about trying to understand prejudices in human behaviour when it comes to money. By extension, the personal decisions that people make about money can be prolonged to influence the economy.

II. CONTENT

The model first named by Richard Thaler. Mental accounting or psychological accounting describes the process whereby individuals code, classify and evaluate economic outcomes. Mental accounting deals with the recall and perception of our various expenditures; its purpose is to keep track of our money-related decisions so as to give us a model with which to evaluate future financial decisions. It is a way of making intellect of the world. Like many other cognitive processes, it can prompt biases and systematic retreats from rational, value-maximizing behaviour, and its inferences are quite hardy. Understanding the flaws and incompetence of mental accounting is essential to making good decisions and reducing human error.



PROCESS OF MENTAL ACCOUNTING

The process of mental accounting can be explained by using a diagram.

- i. The first process is need for recognition. The need for money arises soon as the need of any type of product or services that is to be arises.
- ii. The next process is mental budgeting or accounting. Majority of the people making a monetary budgets before making an investment or buying decision or to satisfy their need.
- iii. After the budget preparation peoples they can analyse or evaluate the available sources in their mind where arising their needed funds.
- iv. The last process is solutions for the repayment. They get solutions for the repayment the fund is considered as very important for any purpose. So after the acquisition of audit fund from the appropriate sources and then go for the information searching the product or services.

CONSUMER BUYING BEHAVIOUR

Consumer buying behaviour is the end result of the attitudes, preferences, intentions and decisions made by the consumers in a market place before buying a product. The study of consumer buying behaviour is an interdisciplinary approach drawing widely from sociology, psychology, anthropology etc.

Types of Buying Behaviour

- a) Complex: consumer involvement with significant brand differences Is high
E.g.:- Cars.
- b) Dissonance Reducing: High degree of involvement with little brand differences.
E.g.:- Carpeting
- c) Habitual: Low involvement with little brand difference.
E.g.:- Salt
- d) Variety seeking: Low enthusiasm with significant perceived brand difference.
E.g.:-Chocolates

BEHAVIOURAL FINANCE

Behavioural finance, it relates social and psychological theory with financial theory for understanding how price movements in the securities markets occur independent of any corporate actions. To explain why and how investors act

and to analyse how that behaviour affects the market behavioural finance combines psychology and economics

Reviews of scholars

1. Mental Accounting in Purchase Decision Making Demographic Characteristics of Consumer

According to the study conducted by Aggarwal & Liu. (2012) "Mental Accounting in Consumer Brand Relationship." They contributed by drawing the multitude of ways in which the application of mental accounting framework to consumer based relationship can give deeper insights into the experiences, processes and consequences underlying consumer behaviour.

According to the study of Kivetz, R. (1999) "Advances in Research on Mental Accounting and Reason Based Choice." This paper explores recent research on the role of mental accounting and cause based choice. The paper also discussed the creation of preference as a process where in some cases consumer chooses reasons rather than options.

Thaler, R.H. (1985) studied on "Mental Accounting and Consumer Choice". He develops a new model of consumer behaviours using a hybrid of cognitive psychology and microeconomics. He also included household budgeting process to complete the classification of mental accounting.

According to these studies the researcher get in to an inference that both complex and habitual purchases, majority of the respondent prefers to restrict their monetary limit before gathering information about products. Out of total respondents, majority of the respondents prefers brand and quality most in case of difficult purchase whereas in case of habitual purchase respondents have a tendency to search information about products.

2. Consumers' "mental accounting" in response to unexpected price savings at the point of sale

According to the study of Hwan Ho Ha, receivers of unexpected discounts tend to spend the savings in store. If a choice of two products is existing, the savings are more likely to be useful to the discounted one than the other. Shoppers constrain more actively to planned purchases when

price reductions are known in advance. The key factor in purchasing behaviour with respect to discounts is the existence or otherwise of estimates. Shoppers' decision-making in these conditions is, therefore, context and mount dependent.

According to the above study the researcher get into a conclusion that the purchasing choices and decisions are closely related to the behaviour of people and their perception through psychological way. The mental accounting also closely related to this as it is related to behaviour of people.

3. Evidence under reverse conditions where money is spent for time saved

Evidence from the behavioral decision literature suggests that economic decisions may be made on less than normal grounds. In this respect the creation of mental accounts by individuals has been used to explain deceptive departures from rationality in certain situations. Using a novel decision scenario, we replicate the prior findings of mental accounting effects under the classical conditions where individual's trade-off time spent for money saved, though these effects are sensitive to the level of absolute saving. However, when the conditions of the decision scenario are upturned, such that individual's trade-off money spent for time saved that is, mental accounting effects are no longer identified. These findings qualify the results reported in preceding studies, suggesting that mental accounting effects maybe context specific and undergo lack of generality.

4. Effects of Mental Accounting on Choice Behaviour

Laughunn & Payne, 1984; Thaler & Johnson, 1990 agree that sensible decision makers should only consider incremental losses and gains; that is, they should not consider past losses i.e., sunk costs, or gains into the assessment of their choice options. It is well recognized, that people often contain past losses and gains in their decisions, which advocates that mental accounting is at work.

According to his opinion the investigator makes the inference that the purchase decision is done according to the

choice of the options. Past experience is considered while taking a decision.

5. The Effect of Customer Participation Types on Online Recovery Satisfaction: A Mental Accounting Perspective

According to the view of Yu Zhang and Bingjia Shao this study investigates the means by which customer participation types (physical, mental, and emotional) endorse customers' perceived justice and post-recovery satisfaction from a mental accounting perception. Furthermore, the regulating effects of two modes of online apology speech acts (direct and indirect) on customer participation and perceived justice are considered.

By this study researcher makes an inference that the three dimensions of customer participation i.e., physical, mental, emotional have different influences on perceived justice in online recovery. That is, during online recovery, only customer's mental and physical behaviour can enhance their justice observation of recovery, while customers' emotional behaviour does not influence perceived justice.

III. CONCLUSION

The main purpose of the study was to create a deeper and through consideration about mental accounting and its importance in purchase decision making. As we know how important mental accounting can be now a days and how

much it influence the purchase decision of a consumer. Mental accounting may lead to irrational behaviour. The normal way of thinking is not done in this. Also it is adaptive strategy. Mental accounting is influenced by judgement and decision making. Mental accounting makes the consumer behaviour in a new way. The spending is less done by the people. It makes the financial decisions more manageable. The marketers are helpful in advertising, promoting and selling their products or services by this. Thus the buying behaviour of consumers and the metal accounts are closely related to each other.

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