Assumption of rationality and consumer behavior

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Market place choice behavior and decision-making is chiefly associated with Rational Choice Theory. Economics, typically discussing the organizational behavior about people in the enhancement of their well-being incorporates the assumption of rationality in the consumer behavior. The assumption maintains that consumers are rational agents and will always make those choices that maximize their utility. It also assumes that rationality of a consumer behavior is majorly an individual concept arising from the premises that consumers are able to define their specific needs, can prioritise their needs, and are able to make such market choices which satisy their desires to a significant extent. The assumption of rationality implies that people have objectives and they tend to take approporiate actions to achieve those objectives. The assumption, in its true essence does not meant that economic agents and consumers dwell in extensive calculations before making a decision, rather this means that consumers largely act in accordance with their preferences in the market place. This assumption directly advocates that consumers tend to be better off rather than being worse off. Additionally, the rational behavior does not aways refer to the achievement of monetary or material benefit, it also hints towards the satisafaction which is received from a non-monetary or emotional decision (Bray).

Rationality in economics is different than the prevalent concept which many people are familiar with. In economics, the application of rationality in consumer behavior means that when an individual will make a decision, he will choose the thing which is best liked by him. Economic rationality also accepts that people want what they want, and the rationality assumption prevents anyone from categorizing those preferences as good or bad. This also helps in understanding the predictability and foreseeabiltiy of the consumer behavior as economic agents are expected to act in largely predictable ways. In addition to make attempts at understanding consumer behavior, the assumption of rationality is also incorporated to built economy models or lay out economic theories about consumption and production. One of the most direct application of this is the law of ‘demand’ stating that if a commodity costs more than its counterparts in the market, rational consumer will buy less of it and search for its substitutes in the market place, which cost less but give the same level of satisfaction as the former.

The assumption of rationality is vital for understanding consumer behavior and is largely considered reasonable because it propounds that economic agents and consumers have a tendency to maximize their own welfare. Even if their means of income are limited, they will spend it in such a way that allows them to achieve highet total satisfaction.

To capture the notion of rational behavior, the specific phrase that is used is known as ‘utility maximization.’ The utility part of this phrase refers to the satisfaction derived from achieving the desired goals. The maximization part refers to the highest posiible level of satisfaction which the consumers aim towards as rational agents.

For instance, if an individual strongly belives in the corporate social responsibility of businesses, the he or she will only choose to invest her stocks in the commercialization of organic produce rather than investing in a more lucrative or conventional production operation.

Another real life example of assuming rationality behind a consumer behavior can be that an economics professor uses the same textbook which he refered to in the previous module so that he can save time for other activities and only has to spend for the library subscription of that book.

Reference List/Endnotes

1. Bray, Jeffery P. "Consumer behaviour theory: approaches and models." (2008).