

Behavioral Economics

Anchoring Bias – The tendency to rely heavily on the first piece of information encountered (the “anchor”) when making decisions. Related terms: availability heuristic, framing effect. Example: a consumer who sees a \$1000 price first perceives \$700 as a bargain. Application: pricing strategies in retail. Challenge: may lead to suboptimal choices if the anchor is arbitrary.

Availability Heuristic – A mental shortcut where people judge the frequency or likelihood of events based on how easily examples come to mind. Related terms: anchoring bias, representativeness heuristic. Example: after hearing news of a plane crash, a traveler overestimates the risk of flying. Application: risk communication in public health. Challenge: can distort risk perception when vivid events are rare.

Behavioral Game Theory – The study of how real people behave in strategic situations, incorporating cognitive biases and limited rationality. Related terms: nudge theory, experimental economics. Example: in a public goods game, participants often contribute less than the socially optimal amount due to free-rider concerns. Application: designing mechanisms for collective action. Challenge: laboratory findings may not fully translate to complex real-world environments.

Bounded Rationality – The concept that individuals aim to make rational choices but are constrained by limited information, cognitive capacity, and time. Related terms: heuristics, satisficing. Example: a shopper selects the first acceptable laptop rather than evaluating every model. Application: simplifying choice architectures. Challenge: distinguishing between rational simplification and bias-driven errors.

Choice Architecture – The organization of the context in which people make decisions, influencing outcomes without restricting options. Related terms: nudge, default settings. Example: placing healthier foods at eye level in a cafeteria encourages better dietary choices. Application: policy design for public welfare. Challenge: ethical concerns about manipulation and autonomy.

Commitment Device – A mechanism that helps individuals stick to long-term goals by imposing costs on future deviation. Related terms: self-control, precommitment. Example: a person deposits money into a savings account that penalizes early withdrawal. Application: encouraging retirement savings. Challenge: designing devices that are effective yet not overly restrictive.

Conformity Bias – The tendency to align one’s attitudes, beliefs, and behaviors with those of a group. Related terms: social proof, herding. Example: investors buying a stock because many others are doing so, despite lacking personal analysis. Application: marketing campaigns that showcase popularity. Challenge: can amplify bubbles and market volatility.

Default Effect – The propensity to accept pre-selected options as the path of least resistance. Related terms: choice architecture, opt-out. Example: organ donation programs that default to “donate” see higher participation rates. Application: increasing enrollment in beneficial programs. Challenge: ensuring defaults

reflect individuals' true preferences.

Delay Discounting – The preference for smaller, immediate rewards over larger, delayed ones, reflecting time-inconsistent preferences. Related terms: hyperbolic discounting, present bias. Example: choosing to spend money now rather than saving for retirement. Application: designing interventions that front-load benefits. Challenge: balancing short-term incentives with long-term welfare.

Endowment Effect – The phenomenon where people assign higher value to objects simply because they own them. Related terms: loss aversion, status quo bias. Example: a homeowner demands more than market price for a house they own. Application: pricing strategies in negotiation. Challenge: may lead to inefficient trade and market stickiness.

Escalation of Commitment – The tendency to continue investing in a failing course of action due to prior investments of time, money, or effort. Related terms: sunk cost fallacy, status quo bias. Example: a company pours more resources into a losing product line. Application: decision reviews and stop-loss policies. Challenge: overcoming emotional attachment to past choices.

Expected Utility Theory – A normative model that predicts that rational agents choose options with the highest expected utility, calculated by weighting outcomes by their probabilities. Related terms: risk aversion, prospect theory. Example: investors select portfolios maximizing expected monetary return adjusted for risk. Application: financial modeling. Challenge: empirical violations such as loss aversion and probability weighting.

Framing Effect – The influence of how choices are presented (gain vs. loss framing) on decision outcomes. Related terms: anchoring bias, prospect theory. Example: a medical treatment described as "90% survival" leads to higher acceptance than "10% mortality." Application: health communication. Challenge: ethical use of framing to avoid manipulation.

Hyperbolic Discounting – A time-inconsistent discounting pattern where the discount rate declines over time, leading to stronger preference for immediate rewards. Related terms: present bias, delay discounting. Example: a smoker chooses a cigarette now rather than quitting for future health benefits. Application: structuring incentives that provide early rewards. Challenge: predicting long-term behavior from short-term preferences.

Loss Aversion – The observation that losses loom larger than equivalent gains in people's evaluations. Related terms: endowment effect, prospect theory. Example: a trader holds a losing stock longer to avoid realizing a loss. Application: designing insurance products that emphasize loss avoidance. Challenge: can cause over-conservatism and missed opportunities.

Mental Accounting – The cognitive process of compartmentalizing money into separate "accounts" based on subjective criteria, influencing spending and saving behavior. Related terms: budgeting, self-control. Example: treating a tax refund as "extra" money for a vacation rather than applying it to debt. Application: financial planning tools that segment funds. Challenge: may lead to suboptimal allocation across accounts.

Moral Hazard – The situation where an individual's risk-taking behavior changes because they are insulated

from the consequences, often due to insurance or guarantees. Related terms: principal-agent problem, adverse selection. Example: a driver who drives recklessly after purchasing comprehensive car insurance. Application: designing contracts with deductibles. Challenge: balancing coverage with incentives for responsible behavior.

Nudge Theory – A framework that uses subtle changes in the environment to steer people toward better decisions without restricting freedom of choice. Related terms: choice architecture, behavioral intervention. Example: automatically enrolling employees in retirement plans while allowing opt-out. Application: public policy, health promotion. Challenge: ensuring nudges respect autonomy and are transparent.

Prospect Theory – A descriptive model of decision making under risk, highlighting loss aversion, reference dependence, and probability weighting. Related terms: loss aversion, framing effect. Example: investors over-react to market drops more than they celebrate equivalent gains. Application: explaining asset pricing anomalies. Challenge: integrating the model with complex, multi-stage decisions.

Reciprocity Norm – The social rule that obliges individuals to return favors or kindness, influencing cooperative behavior. Related terms: social proof, trust. Example: a company offers a free sample, increasing the likelihood of purchase. Application: marketing promotions and charitable campaigns. Challenge: overuse can diminish perceived sincerity.

Regret Theory – A model that incorporates anticipated regret into decision making, suggesting people avoid options that could lead to future remorse. Related terms: loss aversion, anticipatory emotions. Example: a consumer delays buying a product fearing later regret if a better model appears. Application: limited-time offers to reduce procrastination. Challenge: measuring and predicting regret accurately.

Representativeness Heuristic – A mental shortcut where individuals judge the probability of an event by its similarity to a prototype, often ignoring base rates. Related terms: availability heuristic, conjunction fallacy. Example: assuming a quiet person is less likely to be a salesperson despite statistics. Application: risk assessment training. Challenge: leads to systematic bias in probability judgments.

Risk Aversion – The preference for certainty over uncertainty, causing individuals to prefer lower-risk options even when higher-risk alternatives have higher expected returns. Related terms: expected utility theory, prospect theory. Example: choosing a government bond over a volatile stock. Application: portfolio diversification. Challenge: may prevent beneficial entrepreneurial activities.

Self-Control Problem – The difficulty individuals face in aligning short-term actions with long-term goals, often resulting in impulsive choices. Related terms: delay discounting, commitment device. Example: overeating despite a diet plan. Application: pre-commitment contracts for weight loss. Challenge: designing interventions that are both effective and acceptable.

Satisficing – The strategy of selecting an option that meets a minimum threshold of acceptability rather than optimizing. Related terms: bounded rationality, heuristics. Example: buying the first smartphone that satisfies required features. Application: simplifying consumer decision processes. Challenge: may lead to missed higher-value alternatives.

Social Proof – The influence of observing others' behavior on one's own choices, often used as a heuristic for what is correct or popular. Related terms: conformity bias, reciprocity norm. Example: a product with many positive reviews attracts more buyers. Application: online marketing. Challenge: can amplify misinformation and herd behavior.

Status Quo Bias – The preference for maintaining current conditions, leading to resistance to change even when alternatives are superior. Related terms: endowment effect, loss aversion. Example: employees staying with a suboptimal health plan because switching seems daunting. Application: redesigning enrollment processes to reduce inertia. Challenge: overcoming entrenched habits.

Sunk Cost Fallacy – The erroneous reasoning that further investment is justified because of already incurred, unrecoverable costs. Related terms: escalation of commitment, loss aversion. Example: continuing a project because of past spending despite poor outlook. Application: decision-audit checklists. Challenge: cultivating a culture that discards past losses objectively.

Temporal Discounting – The reduction in present value of future rewards, reflecting the preference for immediate gratification. Related terms: delay discounting, hyperbolic discounting. Example: preferring \$50 today over \$60 in a month. Application: structuring payment plans with early-reward incentives. Challenge: aligning incentives with long-term welfare.

Thaler's Mental Accounting – A framework describing how people segment money into mental categories, influencing consumption, saving, and investment patterns. Related terms: budgeting, self-control. Example: treating a tax refund as "bonus" money for leisure spending. Application: designing financial apps that create separate "savings jars." Challenge: may cause inefficient allocation across accounts.

Time Inconsistency – The phenomenon where preferences change over time, leading to plans that are not followed through. Related terms: present bias, hyperbolic discounting. Example: planning to exercise next week but skipping it when the day arrives. Application: commitment contracts that lock in future behavior. Challenge: predicting when inconsistency will arise.

Utility Function – A mathematical representation of a person's preferences, assigning numeric values to outcomes to predict choice behavior. Related terms: expected utility theory, risk aversion. Example: a concave utility function reflects diminishing marginal utility of wealth. Application: economic modeling of consumer demand. Challenge: accurately estimating individual utility curves.

Value Function (Prospect Theory) – The component of prospect theory that captures how people evaluate gains and losses relative to a reference point, typically steeper for losses. Related terms: loss aversion, framing effect. Example: a \$100 loss feels more painful than a \$100 gain feels enjoyable. Application: designing incentive schemes that emphasize loss avoidance. Challenge: individual differences in reference points.

Willingness to Pay (WTP) – The maximum amount an individual is prepared to spend to acquire a good or avoid a negative outcome. Related terms: consumer surplus, contingent valuation. Example: a commuter's WTP for reduced travel time. Application: cost-benefit analysis of public projects. Challenge: eliciting true WTP without strategic bias.

Willingness to Accept (WTA) – The minimum compensation an individual requires to tolerate a loss or give up a benefit. Related terms: endowment effect, loss aversion. Example: a homeowner's WTA for allowing a noisy construction nearby. Application: negotiating compensation in eminent domain cases. Challenge: large gaps often observed between WTP and WTA.

Zero-Price Effect – The tendency for people to overvalue free items, even when a modest price would not significantly affect utility. Related terms: anchoring bias, loss aversion. Example: downloading a free app versus paying \$1 for a similar one. Application: promotional strategies using "free" offers. Challenge: can lead to overconsumption or reduced perceived value.

3-Stage Decision Model – A behavioral framework describing the process of (1) problem recognition, (2) information search, and (3) choice implementation. Related terms: choice architecture, bounded rationality. Example: a consumer noticing a need for a new laptop, researching models, then purchasing. Application: marketers aligning messages with each stage. Challenge: consumers may skip stages or revert to heuristics.

4-C Model of Consumer Behavior – An analytical tool focusing on (1) cognition, (2) affect, (3) conation, and (4) cultural influences on decisions. Related terms: mental accounting, social proof. Example: a buyer's rational evaluation (cognition), emotional response (affect), intention to purchase (conation), and cultural norms. Application: comprehensive market segmentation. Challenge: measuring each component reliably.

Adaptive Expectations – The hypothesis that people form expectations of future variables based on past observations and gradually adjust them as new information arrives. Related terms: rational expectations, learning models. Example: inflation expectations updating after each quarterly report. Application: macro-economic policy forecasting. Challenge: lag in adjustment can cause systematic errors.

Altruism (Behavioral Economics) – The preference for others' welfare, influencing decisions that may not maximize personal monetary payoff. Related terms: reciprocity norm, social preferences. Example: donating to charity without direct personal benefit. Application: designing public goods funding mechanisms. Challenge: distinguishing true altruism from reputation seeking.

Ambiguity Aversion – The tendency to avoid options with unknown probabilities compared to those with known risks. Related terms: Ellsberg paradox, risk aversion. Example: investors preferring a stock with known volatility over a novel venture with uncertain outcomes. Application: structuring financial products with clearer risk disclosures. Challenge: may limit diversification and innovative investment.

Anthropomorphic Pricing – Using human-like descriptors in price presentation (e.g., "just \$5") to trigger emotional responses and affect perceived fairness. Related terms: framing effect, price anchoring. Example: "Only \$9.99 for a limited time!" influences purchase urgency. Application: retail pricing tactics. Challenge: potential consumer backlash if perceived as manipulative.

Behavioural Public Policy – The application of behavioral insights to design policies that improve societal outcomes while respecting individual autonomy. Related terms: nudge theory, choice architecture. Example: default enrollment in pension schemes to increase retirement savings. Application: health, environment, and finance sectors. Challenge: ensuring transparency and evaluating long-term effectiveness.

Bounded Willpower – The concept that self-control is limited and can be depleted, affecting intertemporal choices. Related terms: self-control problem, ego depletion. Example: a shopper's impulse purchase after a long day of work. Application: structuring environments to reduce temptations. Challenge: measuring willpower reserves and designing sustainable interventions.

Behavioural Spillover – The phenomenon where a behavioral intervention in one domain influences actions in another, often unintentionally. Related terms: moral licensing, habit formation. Example: individuals who start recycling may also reduce energy consumption. Application: designing multi-benefit programs. Challenge: predicting direction and magnitude of spillovers.

Cognitive Dissonance – The uncomfortable mental state arising from holding conflicting beliefs or behaviors, motivating individuals to reduce inconsistency. Related terms: self-justification, attitude change. Example: a smoker rationalizing the habit by downplaying health risks. Application: persuasive communication that aligns messages with existing beliefs. Challenge: resistance when dissonance is high.

Commitment Bias – The inclination to stay consistent with prior commitments, even when new information suggests a change. Related terms: status quo bias, sunk cost fallacy. Example: continuing a subscription because the initial sign-up was public. Application: loyalty programs that lock in customers. Challenge: may hinder adaptation to better alternatives.

Counterfactual Thinking – The mental simulation of alternative outcomes that did not occur, influencing satisfaction and future decisions. Related terms: regret theory, mental accounting. Example: regretting not investing in a stock that later surged. Application: feedback design to reduce harmful comparison. Challenge: can lead to excessive rumination and stress.

Decoy Effect (Asymmetric Dominance) – The influence of adding an inferior option that makes another choice more attractive, shifting preferences. Related terms: choice architecture, framing effect. Example: a medium popcorn size priced close to large makes large seem like better value. Application: product line design. Challenge: ethical concerns about artificially steering choices.

Descriptive Norms – Information about how most people behave in a given context, used to guide individual behavior. Related terms: social proof, conformity bias. Example: signs indicating "most guests reuse towels" increase towel reuse in hotels. Application: sustainability campaigns. Challenge: ensuring accurate data to avoid backlash.

Discounted Utility Model – A framework that aggregates future utilities using a discount factor, assuming consistent time preferences. Related terms: temporal discounting, present bias. Example: evaluating a pension plan by discounting future payouts to present value. Application: cost-benefit analysis of long-term projects. Challenge: misrepresenting actual human discounting patterns.

Endogenous Preferences – The idea that preferences can be shaped by experience, context, and learning, rather than being fixed. Related terms: social preferences, behavioral change. Example: taste for healthy food develops after repeated exposure. Application: educational programs that modify preferences. Challenge: measuring the causal impact of interventions on preference formation.

Equity Theory – A model explaining motivation based on perceived fairness of input-output ratios compared to others. Related terms: social comparison, reciprocity norm. Example: an employee feeling dissatisfied when peers receive higher pay for similar work. Application: compensation design. Challenge: individual differences in equity perception.

Experimental Economics – The use of controlled laboratory or field experiments to test economic theories and behavioral hypotheses. Related terms: behavioral game theory, field experiments. Example: testing the impact of default options on retirement savings participation. Application: evidence-based policy design. Challenge: external validity and replicability across settings.

Focal Point (Schelling Point) – A solution that people naturally converge on in the absence of communication, based on salience. Related terms: coordination games, social norms. Example: meeting at noon in a town square when no time is specified. Application: designing mechanisms for collective coordination. Challenge: cultural differences may alter focal points.

Framing Bias – A distortion in judgment caused by the way information is presented, often overlapping with the framing effect but emphasizing systematic misinterpretation. Related terms: anchoring bias, choice architecture. Example: describing a medical test as “95% accurate” vs. “5% error rate” leads to different acceptance rates. Application: risk communication. Challenge: ensuring balanced presentation without hidden agendas.

Herding Behavior – The tendency of individuals to follow the actions of a larger group, often leading to market bubbles or crashes. Related terms: conformity bias, social proof. Example: investors buying a stock simply because many others are buying it. Application: monitoring systemic risk in financial markets. Challenge: distinguishing rational imitation from irrational cascades.

Hyperbolic Discounting vs. Exponential Discounting – Comparison of two discounting models; hyperbolic reflects decreasing impatience over time, while exponential assumes constant discount rate. Related terms: present bias, temporal discounting. Example: choosing \$100 today over \$110 tomorrow (hyperbolic) but being indifferent between \$100 today and \$110 in a year (exponential). Application: designing time-varying incentives. Challenge: fitting the appropriate model to observed behavior.

Identity Economics – The study of how personal and group identities influence economic choices, integrating social psychology with economic analysis. Related terms: social preferences, norms. Example: consumers preferring locally produced goods to reinforce community identity. Application: branding strategies that align with target identities. Challenge: measuring identity strength and its causal impact.

Illusion of Control – The propensity to overestimate one’s influence over uncontrollable events, leading to overconfidence. Related terms: overconfidence bias, gambler’s fallacy. Example: a trader believing they can predict market moves despite randomness. Application: risk management training. Challenge: mitigating overconfidence without discouraging legitimate initiative.

Implicit Association – Unconscious associations between concepts that affect attitudes and decisions, often revealed through reaction-time tasks. Related terms: bias, attitude formation. Example: quicker pairing of “male” with “career” than “female” with “career.” Application: diversity training interventions. Challenge:

translating implicit measures into behavioral change.

Incentive Compatibility – Designing mechanisms where participants find it optimal to act truthfully according to their preferences. Related terms: principal-agent problem, mechanism design. Example: a tax system where reporting true income maximizes net payoff. Application: public policy and contract design. Challenge: ensuring robustness against strategic manipulation.

Intertemporal Choice – Decisions involving trade-offs among costs and benefits occurring at different times. Related terms: delay discounting, present bias. Example: choosing between a \$500 bonus today or a \$600 bonus in a year. Application: retirement planning. Challenge: accounting for inconsistent preferences over time.

Loss Framing – Presenting outcomes in terms of potential losses rather than gains, affecting motivation and risk perception. Related terms: framing effect, prospect theory. Example: “Avoid a \$50 penalty” versus “Earn a \$50 reward.” Application: compliance programs. Challenge: overuse may cause anxiety and resistance.

Market Efficiency (Behavioral Perspective) – The notion that markets reflect all available information, moderated by behavioral biases that can cause temporary mispricings. Related terms: efficient market hypothesis, behavioral finance. Example: stock price overreaction to earnings announcements due to optimism bias. Application: active trading strategies. Challenge: distinguishing persistent anomalies from noise.

Mental Models – Internal representations that simplify complex reality, guiding perception and decision making. Related terms: heuristics, bounded rationality. Example: a consumer’s mental model of “quality” based on brand reputation. Application: educational tools that reshape inaccurate mental models. Challenge: overcoming entrenched misconceptions.

Mere Exposure Effect – The tendency to develop a preference for things simply because they are familiar. Related terms: familiarity bias, social proof. Example: repeated advertising increases product likability. Application: branding campaigns. Challenge: diminishing returns after high exposure levels.

Motivation Crowding Out – The reduction of intrinsic motivation when external incentives are introduced, potentially lowering overall effort. Related terms: extrinsic incentives, self-determination theory. Example: offering payment for blood donation may reduce altruistic donations. Application: policy design that balances incentives with intrinsic drives. Challenge: measuring the net effect of incentives.

Neuroeconomics – An interdisciplinary field combining neuroscience, psychology, and economics to understand the neural bases of decision making. Related terms: behavioral economics, fMRI studies. Example: identifying brain regions activated during risk assessment. Application: tailoring interventions to neural reward pathways. Challenge: translating neural findings into practical policies.

Normative vs. Descriptive Models – Distinction between how decisions should be made according to rational theory (normative) and how they are actually made (descriptive). Related terms: expected utility theory, prospect theory. Example: rational agent would diversify; real investors often concentrate. Application: bridging gaps through nudges. Challenge: integrating insights without sacrificing predictive

power.

Overconfidence Bias – The tendency to overestimate one's knowledge, abilities, or future performance. Related terms: illusion of control, self-attribution bias. Example: entrepreneurs believing their venture will succeed despite low odds. Application: training programs that provide calibrated feedback. Challenge: reducing overconfidence without discouraging ambition.

Peak-End Rule – The tendency to judge an experience largely based on its most intense point and its final moments, rather than the total sum. Related terms: memory bias, affect heuristic. Example: a short, painful medical procedure followed by a pleasant recovery is remembered more positively than a longer, less painful one. Application: designing customer experiences. Challenge: ensuring ethical use of memory manipulation.

Prospect Theory – Value Function – A component describing diminishing sensitivity for gains and losses and steeper slopes for losses, reflecting loss aversion. Related terms: loss aversion, framing effect. Example: a \$10 loss feels more painful than a \$10 gain feels satisfying. Application: structuring insurance deductibles. Challenge: individual variation in curvature and reference points.

Prospect Theory – Probability Weighting – The distortion where people overweight small probabilities and underweight moderate to high probabilities. Related terms: overestimation of rare events, risk perception. Example: overvaluing lottery tickets despite low odds. Application: lottery design and public health warnings. Challenge: calibrating messages to correct misperceptions.

Reference Dependence – The principle that outcomes are evaluated relative to a reference point rather than in absolute terms. Related terms: prospect theory, loss aversion. Example: salary increase feels more satisfactory when compared to the previous salary rather than the market average. Application: compensation negotiation tactics. Challenge: shifting reference points strategically.

Regret Aversion – The desire to avoid future regret, influencing present choices, often leading to conservative behavior. Related terms: loss aversion, anticipatory emotions. Example: opting out of a risky investment to avoid possible regret if it fails. Application: product warranties that reduce perceived regret. Challenge: quantifying regret intensity across individuals.

Risk Perception – The subjective judgment individuals make about the severity and probability of a risk, often deviating from statistical reality. Related terms: availability heuristic, ambiguity aversion. Example: fearing airplane crashes more than car accidents despite lower statistics. Application: safety campaigns that align perception with actual risk. Challenge: overcoming emotional biases.

Self-Attribution Bias – The tendency to attribute successes to internal factors and failures to external circumstances. Related terms: overconfidence bias, self-serving bias. Example: a student credits intelligence for a good grade but blames a poor grade on a tough exam. Application: feedback systems that promote realistic self-assessment. Challenge: fostering balanced attribution for growth.

Social Identity Theory – Explains how group membership shapes self-concept and influences behavior toward in-group and out-group members. Related terms: identity economics, norms. Example: consumers

preferring products made by members of their own cultural group. Application: targeted marketing. Challenge: avoiding exclusionary practices.

Time Preference – The degree to which individuals value present consumption over future consumption, often reflected in discount rates. Related terms: present bias, temporal discounting. Example: preferring \$100 now to \$110 in a month. Application: interest rate design for savings accounts. Challenge: aligning policy rates with heterogeneous time preferences.

Utility Maximization – The principle that agents choose actions that provide the highest personal satisfaction, given constraints. Related terms: expected utility theory, behavioral deviations. Example: a consumer selecting a bundle that maximizes perceived benefit per price. Application: demand forecasting. Challenge: accounting for non-monetary utilities and biases.

Welfare Economics (Behavioral Lens) – The study of how policies affect overall well-being, incorporating behavioral distortions into welfare calculations. Related terms: nudge theory, behavioral welfare. Example: evaluating a tax credit's impact on low-income households when they exhibit present bias. Application: cost-effectiveness analysis. Challenge: measuring welfare when preferences are unstable.

Zero-Sum Thinking – The belief that one party's gain must come at another's loss, influencing competitive behavior. Related terms: competition, social preferences. Example: investors viewing market share as fixed, leading to aggressive tactics. Application: negotiation strategies. Challenge: encouraging cooperative outcomes where possible.

1-Shot vs. Repeated Games – Distinction between single interaction scenarios and those where players anticipate future encounters, affecting strategy choice. Related terms: behavioral game theory, trust. Example: cooperating in a repeated prisoner's dilemma to build reputation. Application: long-term supplier contracts. Challenge: modeling expectations of future play accurately.

2-Stage Decision Process – A simplified framework where individuals first form preferences and then select the option that best matches those preferences. Related terms: choice architecture, bounded rationality. Example: a shopper first decides on budget, then picks a product within that range. Application: segmenting marketing messages. Challenge: real-world decisions may involve more iterative stages.

3-C Model of Consumer Decision – Focuses on (1) cognition, (2) emotion, and (3) context as drivers of purchase behavior. Related terms: affect heuristic, mental accounting. Example: a buyer's rational evaluation, emotional attachment, and situational constraints shape the final purchase. Application: holistic advertising strategies. Challenge: quantifying each component's weight.

Acquisition Utility – The perceived benefit derived from obtaining a new good, distinct from consumption utility. Related terms: status seeking, social proof. Example: the excitement of buying the latest smartphone, beyond its functional use. Application: product launch timing. Challenge: distinguishing acquisition excitement from long-term satisfaction.

Attitude–Behaviour Gap – The discrepancy between expressed attitudes and actual behavior, often observed in environmental or health contexts. Related terms: cognitive dissonance, social desirability bias.

Example: claiming to recycle but rarely doing so. Application: designing interventions that bridge intention and action. Challenge: measuring true behavior versus self-report.

Bias Toward the Status Quo – The overall inclination to avoid change, leading to inertia in decision making. Related terms: status quo bias, loss aversion. Example: staying with a suboptimal insurance plan because changing seems effortful. Application: simplifying plan switching processes. Challenge: overcoming deep-rooted habits.

Behavioral Externalities – Spillover effects of an individual's behavior on others that are not accounted for in market prices. Related terms: social norms, public goods. Example: one driver's aggressive style increases accident risk for others. Application: regulation of harmful practices. Challenge: quantifying externalities for policy.

Behavioral Pricing – Pricing tactics that exploit cognitive biases, such as charm pricing, anchoring, and reference effects. Related terms: price anchoring, psychological pricing. Example: \$9.99 perceived as significantly cheaper than \$10. Application: retail pricing strategy. Challenge: maintaining credibility while leveraging bias.

Bounded Agency – The limitation of agents' ability to act on preferences due to constraints like information, time, or self-control. Related terms: bounded rationality, choice architecture. Example: a busy parent unable to research the best health insurance plan. Application: decision aids and default options. Challenge: identifying the most binding constraints.

Choice Overload – The phenomenon where too many options lead to decision paralysis or dissatisfaction. Related terms: paradox of choice, heuristics. Example: a supermarket aisle with 50 cereal brands causing shoppers to defer purchase. Application: curating product lines. Challenge: balancing variety with simplicity.

Commitment Consistency – The drive to act consistently with prior commitments, often leveraged in marketing through "foot-in-the-door" techniques. Related terms: commitment bias, reciprocity norm. Example: a small initial request increases likelihood of agreeing to a larger later request. Application: fundraising campaigns. Challenge: ethical considerations of manipulation.

Construal Level Theory – Explains how psychological distance (temporal, spatial, social) influences abstract versus concrete thinking,