

Seminar 6: Mental Accounting

This seminar will explore mental accounting—the process of coding, categorizing and evaluating choices and outcomes. The primary component of mental accounting is to place any spending or income into separate accounts for specific purposes. For example, one might have an “entertainment account” for going to the movies or the theatre, and a “food account” for eating out at restaurants. Outcomes are perceived and experienced relative to the particular account that is brought to mind. I will begin by providing a brief overview of the three major elements of mental accounting: (1) framing and editing, (2) budgeting and fungibility, and (3) choice bracketing and dynamics. Each of our speakers will then provide a selective introductory overview of one of the three components.

Background reading for all students

Thaler, R. T. (1999). Mental accounting matters. *Journal of Behavioral Decision Making*, 12, 183-206.

Wilkinson, N., & Klaes, M. (2012; Chapter 6). *An introduction to behavioural economics*. Palgrave Macmillan: New York.

Readings for speakers

Speaker 1: Framing and hedonic editing

Thaler, R. H. (1985). Mental accounting and consumer choice. *Marketing Science*, 27, 15-25.

Thaler, R. H., & Johnson, E. J. (1990). Gambling with the house money and trying to break even: The effect of prior outcomes on risky choice. *Management Science*, 36, 643-660.

Speaker 2: Budgeting and fungibility

Heath, C., & Soll, J. B. (1996). Mental budgeting and consumer decisions. *Journal of Consumer Research*, 23, 40-52.

Prelec, D., & Lowenstein, D. (2001). Always leave home without it: A further investigation of the credit-card effect on willingness to pay. *Marketing Letters*, 12, 5-12.

Rajagopal, P., & Rha, J-Y. (2009). The mental accounting of time. *Journal of Economic Psychology*, 30, 772-781.

Speaker 3: Choice bracketing and dynamics

Shafir, E., & Thaler, R. H. (2006). Invest now, drink later, spend never: On the mental accounting of delayed consumption. *Journal of Economic Psychology*, 27, 694-712.

Siemens, J. C. (2007). When consumption benefits precede costs: towards an understanding of 'buy now, pay later' transactions. *Journal of Behavioral Decision Making*, 20, 521-531.