A Comparative Evaluation of Behavioral and Economic Theories in Predicting Consumer Responses to Market Instability

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Abstract. This study investigates the efficacy of behavioral and traditional economic theories in understanding consumer reactions during periods of market instability. Utilizing a mixed-method approach, we analyze consumer data from multiple economic downturns over the past decade, employing econometric models to quantify the predictive power of each theory. Our findings reveal that behavioral theories significantly outperform traditional models in forecasting consumer behavior during crises, suggesting a shift in how economists should approach market analysis. This research contributes to both theoretical and practical realms, advocating for the integration of behavioral insights into economic policymaking.

Keywords: consumer behavior, behavioral economics, economic theories, market instability, predictive modeling, economic policy, decision-making, mixed-methods research

Introduction

In the wake of recent global economic disruptions, understanding consumer behavior has become paramount for policymakers and businesses alike. The COVID-19 pandemic, compounded by geopolitical tensions and climate change, has underscored the volatility of markets and the necessity for accurate predictive models. Traditional economic theories have long dominated the analysis of consumer responses; however, emerging evidence indicates that these models may not fully capture the complexities of human decision-making under duress. Behavioral economics, which integrates psychological insights into economic models, offers a promising alternative that may provide a more nuanced understanding of consumer reactions during periods of uncertainty. This paper seeks to explore the comparative effectiveness of these two theoretical frameworks in predicting consumer behavior amidst market instability. We begin by outlining the historical context and relevance of both behavioral and economic theories in contemporary research. Subsequently, we will detail our methodology, which employs a mixed-methods approach, drawing on both quantitative econometric analysis and qualitative consumer interviews. Finally, we will present our findings, emphasizing the implications for economic theory and policy. This study not only aims to contribute to the existing body of literature by bridging the gap between behavioral and traditional economic predictions but also aspires to influence future research agendas and policy development in economic sciences. The structure of the paper is as follows: first, we review the existing literature on consumer behavior theories; next, we describe our research design; thereafter, we present our results; and finally, we discuss the implications of our findings for economic theory and practice.

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