

An Analysis of the Elderly Consumption Behaviour Based on Behavioral Economics

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Abstract: The phenomenon of population ageing has become a significant issue in the majority of countries worldwide, particularly in developed countries. Many countries are now exploring the elderly consumer market, hoping that the spending power of senior citizens can boost their national economies. However, due to factors such as the decline in cognitive ability with age, changes in social circles, and technological advances, the elderly may exhibit irrational decision-making behaviors that are difficult to judge, making it challenging to regulate the senior consumer market. Some industries even find themselves teetering on the edge of legality. This paper focuses on the characteristics of elderly consumer behaviour and analyses them through the lens of behavioural economics. Qualitative analysis, comparative analysis, and other methods are employed to study cognitive biases, social influences, as well as time preferences in the decision-making process. In addition, specific research is conducted on the unique aspects of the older population compared to other age groups.

Keywords: Behavioural Economics, Population Ageing, consumption Behaviour, Decision-Making

1. Introduction

The “World Social Report 2023” released by the United Nations Economic and Social Council predicts that by the middle of this century, the population aged 65 and over is expected to increase by more than double [1]. The report emphasises the importance of prioritising the rights and well-being of older people to achieve a sustainable future. Research indicates that as people age, factors such as cognitive decline, environmental changes, and shifts in decision-making may lead to irrational behaviours in their choices, making the elderly consumer market unpredictable. Based on this phenomenon, this paper distinguishes the changes that come with old age and analyses the impact of behavioural economics on the elderly consumer market. In the paper, the impact of health and medical expenses, as well as changes in social roles and status on the elderly are analysed. Besides, cognitive biases in decision-making processes, social influence, group behaviour, time preferences, and delayed gratification are also included. This study contributes to a better understanding of the consumer behaviour of older people, informing future developments, regulation of the consumer market for older people and tailoring of products for older people.

2. Problems Posed by Population Ageing

2.1. Health Problems and Medical Costs of the Elderly

From a fundamental perspective, as the health of elderly individuals deteriorates, they gradually lose their ability to work. This leads to a significant decrease in their income and subsequently in their consumption. People tend to increase their savings rate as they enter old age, possibly related to a desire to change their consumption patterns or prepare for major illnesses in the future. Elderly individuals also adjust their consumption needs and psychology based on their health conditions, which in turn affect their consumption behaviours. They may become more sensitive to expenses related to healthy foods, supplements, and healthcare services. Furthermore, under the impact of health shocks, they may reassess their future consumption plans. Medical expenses become a key concern for the elderly, including regular healthcare costs and those resulting from illnesses [2].

As elderly individuals age, their physical condition deteriorates, impacting their consumption habits. They may redirect spending from leisure, travel, or appearance-related items towards healthcare products and medical services. This shift results in increased expenditure on health-related items. Furthermore, the elderly may not simply reduce overall consumption but also redefine categories of non-health-related spending. Health-related shocks affect their marginal utility of consumption, leading to significant changes and new decision-making processes. This may introduce new considerations and potentially irrational or less rational choices when making decisions. However, overall, the elderly tend to adapt to changes in a smoother manner, allowing for a more gradual transition in their consumption patterns [2].

2.2. Changes in Social Roles and Status of the Elderly

The experience of loneliness among the elderly has a profound impact on their consumption habits. Prior to retirement, they often held stable jobs and enjoyed a relatively high social status within the workplace. However, upon retirement, they perceive a notable gap resulting from the transition. Their social circle becomes more limited, primarily comprising elderly individuals. In addition, their former friends are moving into old age, further narrowing their social circle. This social impact on the elderly is particularly pronounced. This can result in a retirement life that is perceived as monotonous, which may contribute to a lack of joy. Consequently, the elderly may engage in irrational consumption, particularly when targeted by special marketing techniques. As individuals enter retirement, their social environment undergoes significant changes [3]. Therefore, the elderly to make new consumption choices in response to these changes. Health products or daily necessities purchased by peers or neighbours in the same age group or community can be particularly challenging for newcomers to resist. Additionally, after transitioning into retirement, elderly individuals tend to have more concentrated social circles with more frequent interactions, often with limited diversity and little change.

This sense of loneliness may also extend to family relationships. Elderly people may feel a strong sense of loneliness due to a disconnect with their offspring. This feeling of isolation, combined with a lack of achievement in society, affects their psychological state. This state of mind may make it even more challenging for the elderly to maintain a positive outlook after facing health issues and the challenges of their children growing up [4]. Changes in the surrounding environment can also impact the psychological state of the elderly. In their working environment, they had colleagues of various ages and backgrounds. Although there was some level of similarity, most were energetic and younger [3].

3. The impact of behavioural economics on the elderly consumer market

3.1. The impact of Cognitive biases in decision-making processes on the elderly consumers

Many heuristics and biases in behavioural economics are mostly due to analysing decisions through direct perception rather than calculating expectations and statistical returns. The decline in older people's willingness to calculate and reason may affect their judgement in decision-making, leading them to be misled by sales pitches or scams. For instance, the framing effect can influence older people's consumer choices, which can be used to positively guide and promote consumption. However, if exploited in sales or scams, it could have negative consequences [5]. At the same time, older people have richer experiences and knowledge. According to the definition of the availability heuristic, they may be influenced by this heuristic, making it difficult for them to be objective when facing events similar to their unique or memorable experiences, leading them to rely excessively on experience and make overly aggressive or overly conservative decisions. Correspondingly, these experiential biases may trigger anchoring and representativeness heuristics, leading to more biases [5]. Nevertheless, studies also indicate that older people who have received financial and financial-related training are significantly more rational, indicating that those who have received relevant training are better able to maintain rationality.

3.1.1. Cognitive Decline and Decision-Making

It can be observed that the fluid cognitive abilities of older adults decline with age in comparison to other age groups. Furthermore, their willingness to engage in cognitive tasks also declines during this process. Consequently, it is evident that when older adults experience a decline in both their cognitive ability and willingness to engage in cognitive tasks, they may encounter difficulties in making sound decisions [5].

Research indicates that even extremely mild age-related cognitive changes can have a significant impact on the decision-making of elderly individuals without dementia or mild cognitive impairment. Some cognitive decision-making abilities may start to decline as early as the age of 20, and a person's computational and decision-making abilities decrease with age. This can make it difficult for elderly people to make rational choices when facing challenging decisions or choices resembling fraud [6,7].

3.1.2. Extremism and Loss Aversion

The perception is that older people tend to be risk-averse, favouring conservative choices. But in fact, studies have found that the elderly are actually more willing to take higher risks. This shows that older people do not always show a clear head when faced with scams and sales pitches. Despite their aversion to loss, they tend to be more aggressive when faced with risks and find it difficult to make rational decisions. According to research by Bruine de Bruin et al. [8], results show that older people tend to have a more positive emotional response to both gains and losses compared to other age groups. This may explain why the elderly are often willing to make riskier decisions. Because of their relatively stable emotions, losses have less impact on their emotional state, making them less sensitive to losses than other age groups. They are better prepared mentally to move on to the next choice or investment, hence they tend to continue taking risks and accepting challenges rather than making more conservative choices [9].

3.2. The impact of Social influences and Group behaviour on the elderly consumers

As mentioned earlier, the social relationships and social circles of elderly people undergo significant changes after retirement. These changes have a profound impact on their consumer behaviour. For

instance, many social and group biases from behavioural economics may manifest more prominently among the elderly than in other age groups. An example is the availability heuristic that influences the group. The elderly group is relatively homogeneous, with a high frequency of interaction among its members. Due to their lack of occupational or academic engagement, they occupy a relatively homogeneous social environment. In this setting, their influence on each other is considerable, particularly in comparison to other age groups who are engaged in work or study. Therefore, when some individuals in the elderly group are influenced by certain information simultaneously, this information may spread among the entire group. During this process, they may all come to believe in this information without any form of argument, as the information is continuously emphasised within the group [3].

3.3. The impact of Time preferences and delayed gratification on the elderly consumers

Empirical studies have demonstrated that the time discount rate of the elderly is lower than that of young people. This suggests that the elderly may exhibit poorer self-control compared to young people. They may engage in more impulsive consumption choices and exhibit more irrational behavior, particularly when presented with items they strongly desire. This impulsiveness may impede the elderly's ability to effectively evaluate the actual value of a product or the price they should pay through comparison or reasoning when making purchases. It is possible that they may be more eager to purchase the item in question [10].

4. Discussion

As mentioned above, the behaviour of the elderly does indeed exhibit many irrational aspects, but these shortcomings, when summarised, may not necessarily fully reflect reality. Considering the different customs and habits in various countries, the degree to which the elderly accept different risks and losses varies. Furthermore, the norms of elderly consumer behaviour still have a long way to go. Although the elderly share many common characteristics, overall, their differences in past life experiences are also significant. This has a significant impact on their consumer behaviour. In such cases, the formulation of relevant systems and norms becomes extremely complex. Resolving this issue is also challenging to address through macro-level systems. In some instances, the company of their children may be even more effective.

5. Conclusion

Through research, it is not difficult to discover that the changes brought about by ageing are multifaceted, which encompass various aspects such as personal status and living environment, leading to multidimensional shifts in decision-making for the elderly. It has been observed that the judgement of elderly individuals is often not as rational as one might imagine, as their unique cognitive biases, group behaviour, social status, and time preferences can steer their decisions towards extremes and high risks. Despite their willingness to take higher risks in making choices, greater emotional stability of the elderly also makes it easier for them to accept losses. These factors may increase older people's susceptibility to biases and heuristic influences. In addition, the rich experience of older persons contributes to some extent to their irrational decision-making.

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