Rational decision making

a) The assumption of rationality in decision making:

1) Firms aim for profit maximization maximize returns to shareholders.

2) Consumers are national and always aim to maximize their utility
for satisfaction)

b) Reasons why consumers may not aim to maximise utility:

1. the influence of other people's behaviour (herding)

e.g. University students may be on a night out where social norm is that everyone drinks heavily. One individual may not want to drink but may end up drinking more than he want.

2. habitual behaviour

This is because people know that good decision can be made with full information required. It is not worth the time and effort to change. People are likely to stick to old habit and not be have rationally

3. inertia

People might be lazy to change so they strict to default choice.

4. poor computational skills

Prices and offers are often presented in ways where consumers find it difficult to do mathematics required for comparison. Some firms exploit weakness and consumers may not be rational

5. the need to feel valued

People all look for value it consumers do not feel value will not change choice.

6. framing and bias

Bias from consumers' experience