



The Psychology of Spending: Why Do We Buy What We Buy

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Abstract

This study explores the psychological factors influencing consumer spending, focusing on emotional drivers, cognitive biases, and the impact of marketing and lifestyle choices. Key findings reveal that emotions such as happiness and stress can lead to impulse buying, while marketing strategies, including emotional appeals and social proof, significantly shape consumer behaviour. Lifestyle choices and personal values also play a critical role in financial decision-making, affecting spending, saving, and investing priorities. The research underscores the need for businesses to leverage psychological insights in marketing and for policymakers to enhance financial literacy, promoting responsible consumer behaviour and informed financial decisions.

Chapter 1: Introduction

1.1 Introduction

The study of "The Psychology of Spending" delves into how psychological factors such as emotions and cognitive biases influence consumer behaviour and purchasing decisions, highlighting the impact of marketing and personal choices.

1.2 Background

The research on "The Psychology of Spending: Why Do We Buy What We Buy" explores the underlying psychological factors influencing consumer purchasing behaviour (Di Crosta *et al.* 2021). It examines how emotions, social influences, and cognitive biases shape buying decisions and how marketers leverage these insights to influence consumer habits and preferences.

1.3 Research rationale

Understanding the psychology behind consumer spending is crucial as it reveals why individuals make certain purchasing decisions (Qazzafi, 2020). Current issues include rising consumer debt and the influence of marketing on spending habits, which impact financial well-being and market trends. With the advent of digital marketing and personalised advertising, the need to comprehend these psychological drivers has intensified. Analysing these factors now is essential for businesses to align strategies with consumer behaviour and for policymakers to address economic and psychological impacts on spending (Loxton *et al.* 2020). Thus, this research will focus on exploring the psychological motivations behind consumer spending habits and financial choices.

1.4 Research Aim and Objective

The aim of this research is to explore the psychological motivations behind consumer spending habits and financial choices.

Objectives

- To identify key psychological factors Influencing Consumer Spending.
- To examine the impact of marketing and advertising on consumer behaviour.
- To access the role of lifestyle and personal choice in shaping financial choices.

1.5 Research Questions

- What are the key psychological factors Influencing Consumer Spending?
- What is the impact of marketing and advertising on consumer behaviour?
- What is the role of lifestyle and personal choice in shaping financial choices?

1.6 Reserach Significance

This research is significant as it provides insights into consumer behaviour, helping businesses tailor marketing strategies and improve financial management. Understanding spending psychology aids in crafting effective policies to mitigate economic challenges and address consumer debt. It also supports more targeted and ethical advertising practices in a rapidly evolving market.

1.7 Summary

This research explores the psychological drivers behind consumer spending, assessing the effects of marketing, lifestyle, and personal choice. It aims to enhance business strategies and inform policy to address economic and psychological impacts.



Chapter 2: Literature Review

2.1 Introduction

Chapter 2 explores key psychological factors influencing consumer spending, including emotional drivers, cognitive biases, and social influences, and examines the impact of marketing, lifestyle, and personal choices on financial behaviour.

2.2 Key Psychological Factors Influencing Consumer Spending

Understanding key psychological factors influencing consumer spending is essential for deciphering purchasing behaviour. Several theories and findings highlight these factors. Firstly, emotional drivers play a significant role; consumers often make purchases based on feelings rather than practical needs. Emotions such as happiness, stress, or nostalgia can heavily influence spending decisions, leading to impulse buying or splurging as a form of emotional relief (Mahendru *et al.* 2022). Secondly, cognitive biases affect consumer choices. For instance, the anchoring effect involves consumers relying too heavily on the first piece of information they receive, such as an initial high price, which influences their perception of subsequent prices (Tomar *et al.* 2021).

Similarly, the bandwagon effect sees consumers making purchases based on the perceived popularity of products, reflecting a desire for social validation (Kaur & Malik, 2020). Social influences also shape consumer spending. Peer pressure, social norms, and cultural trends impact purchasing behaviour. For example, consumers may buy products to conform to social groups or to enhance their social status (Vázquez-Martínez *et al.* 2021). These psychological factors not only guide individual consumer behaviour but also inform how businesses design marketing strategies to align with and leverage these psychological drivers effectively.

2.3 Impact of marketing and Advertising on consumer behaviour

The impact of marketing and advertising on consumer behaviour is a well-researched area, revealing significant effects on how consumers perceive and interact with products and brands (Di Crosta *et al.* 2021). Marketing strategies and advertising campaigns shape consumer behaviour through various mechanisms. Advertising utilises persuasive techniques to influence consumer attitudes and behaviours. Techniques such as emotional appeals, celebrity endorsements, and compelling narratives can create strong associations between a product and positive

feelings or desired outcomes. Emotional advertising, in particular, has been shown to increase brand recall and consumer preference by appealing to emotions rather than rationality (Qazzafi, 2020).

Marketing strategies often involve behavioural conditioning, where repeated exposure to advertisements creates brand familiarity and preference. Classical conditioning, where brands are paired with positive stimuli, can lead to automatic and favourable responses towards the brand (Loxton *et al.* 2020). This conditioning process can influence consumer choices and foster brand loyalty. Advertising often employs social proof by showcasing products as popular or endorsed by peers. This tactic leverages the bandwagon effect, where consumers are influenced by the perceived popularity of a product, thus driving purchasing decisions (Mahendru *et al.* 2022). Social media has amplified this effect, as influencers and user-generated content can significantly impact consumer choices and brand perceptions.

Advances in data analytics and digital marketing have enabled highly targeted advertising, enhancing its effectiveness. Personalised ads based on consumer behaviour and preferences are more likely to capture attention and drive engagement (Kaur & Malik, 2020). This level of personalisation helps marketers reach specific segments with tailored messages, increasing the likelihood of conversion.

2.4 Role of lifestyle and personal choice in shaping financial choices

The role of lifestyle and personal choice in shaping financial decisions is a critical area of study in consumer behaviour research (Vázquez-Martínez *et al.* 2021). Lifestyle factors and personal choices significantly influence how individuals manage and allocate their finances, impacting their overall financial well-being and decision-making processes. Lifestyle plays a pivotal role in financial decision-making. Individuals' daily habits, activities, and long-term goals shape their spending patterns and financial priorities. For example, a lifestyle centred around luxury and high-status consumption often leads to higher spending and increased debt levels, while a minimalist lifestyle may promote savings and prudent financial management (Di Crosta *et al.* 2021).

Lifestyle preferences also dictate expenditure on areas such as health, travel, and leisure, influencing how individuals allocate their resources (Qazzafi, 2020). Personal choice is integral in determining financial behaviour, encompassing decisions related to saving, investing, and spending. Choices are often influenced by individual

values, goals, and financial literacy. Research shows that financial knowledge and attitudes towards money significantly affect financial behaviours. For instance, individuals with higher financial literacy are more likely to engage in effective budgeting and long-term financial planning (Loxton *et al.* 2020).

2.5 Theory

The Theory of Planned Behavior (TPB), developed by Icek Ajzen in 1991, provides a framework for understanding how individual attitudes, social influences, and perceived control affect behaviour (Ajzen, 2020). According to TPB, behaviour is driven by three key components: attitudes towards the behaviour, which reflect personal evaluations of its outcomes; subjective norms, which encompass perceived social pressures from others to perform or refrain from the behaviour; and perceived behavioral control, which denotes the individual's perception of their ability to perform the behaviour (Kan & Fabrigar, (2020). In the context of financial decision-making, TPB helps explain how attitudes towards money, societal expectations, and self-efficacy influence spending and saving behaviours.

For example, if individuals believe that saving money is beneficial and socially endorsed, and they feel capable of managing their finances, they are more likely to engage in financial planning and prudent spending (Bosnjak *et al.* 2020). TPB thus offers valuable insights into the psychological factors shaping financial choices. The Theory of Planned behaviour aligns with this research, suggesting that financial choices are influenced by attitudes towards money, subjective norms, and perceived behavioral control. This theory highlights how personal values, social influences, and perceived ability to manage finances shape consumer spending and saving behaviours, providing a framework for understanding financial decision-making processes.

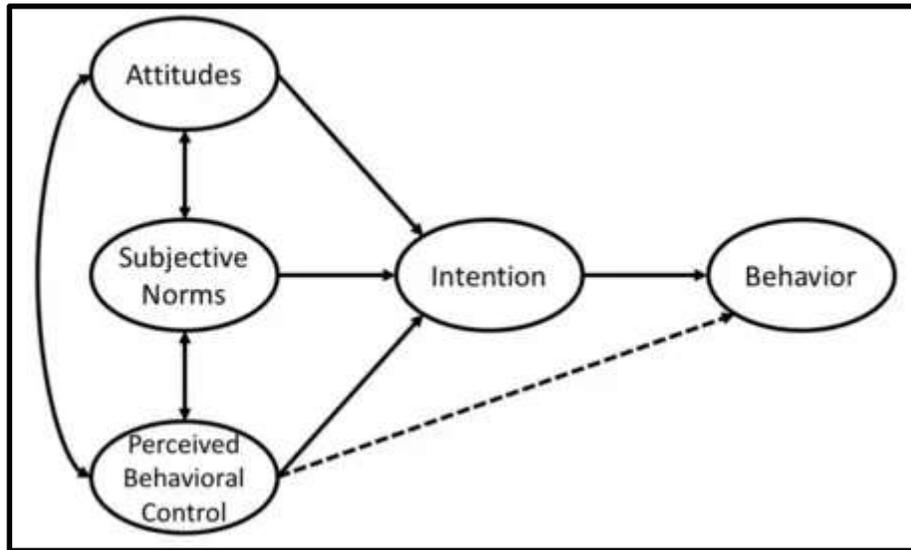


Figure 1: Theory of Planned Behavior

(Source: Ajzen, 2020)

2.6 Summary

This chapter reviews psychological factors affecting consumer behaviour, the influence of marketing and advertising, and the role of lifestyle and personal choice in financial decisions, framing these within the Theory of Planned Behavior.

Chapter 3: Methodology

3.1 Introduction

The research methodology section outlined the approach and methods used to investigate the psychological factors influencing consumer spending and financial decisions. This section detailed the research philosophy, approach, design, data collection and analysis methods, and ethical considerations, providing a comprehensive framework for conducting the study.

3.2 Research Philosophy

This study adopted an interpretivist philosophy, emphasising the understanding of subjective meanings and interpretations individuals attached to their financial behaviours and decisions. Interpretivism focused on exploring the complexities of human experiences and the social contexts influencing consumer behaviour. By adopting this philosophy, the research aimed to provide deeper insights into how psychological factors, social influences, and personal choices shaped financial decisions rather than merely quantifying them.

3.3 Research approach

A deductive approach was employed in the research to test existing theories and hypotheses related to consumer spending and financial behaviour. Starting from established theories and frameworks, such as the Theory of Planned Behavior, the research aimed to validate and refine these theories based on empirical data. This approach allowed for a structured investigation into how well existing theories applied to the study's context and how psychological factors influenced consumer behaviour.

3.4 Research design

The research design was explanatory, aiming to clarify the relationships between psychological factors, marketing influences, lifestyle choices, and financial behaviours. This design sought to provide explanations for why consumers made certain financial decisions and how different variables interacted. By focusing on understanding these relationships, the study aimed to uncover causal connections and offer explanations for observed phenomena in consumer behaviour.

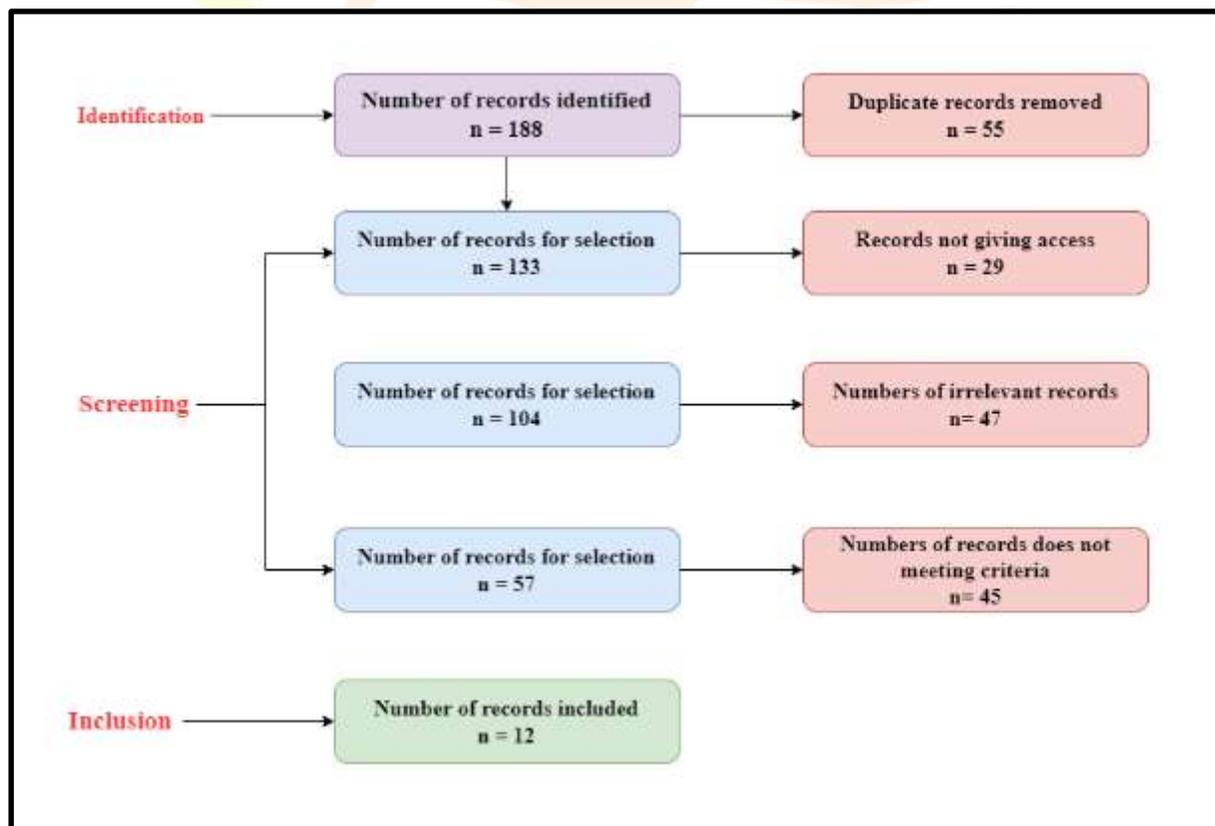
3.5 Data Collection Method

Secondary data collection methods were used to gather existing data from various sources, including academic journals, market reports, and industry analyses. This approach allowed for a comprehensive review of previous research and data related to consumer spending and financial behaviour. Secondary data provided a foundation for understanding trends, patterns, and insights without the need for primary data collection, making it a cost-effective and time-efficient method for this research.

3.6 Data Analysis Method

Data analysis was conducted using thematic analysis, a qualitative method for identifying and interpreting patterns or themes within the data. This approach involved coding data into themes that represented key aspects of the research questions. By analysing themes related to psychological factors, marketing effects, and lifestyle influences, the study aimed to uncover deeper insights and provide a nuanced understanding of consumer financial behaviours.

3.6 PRISMA

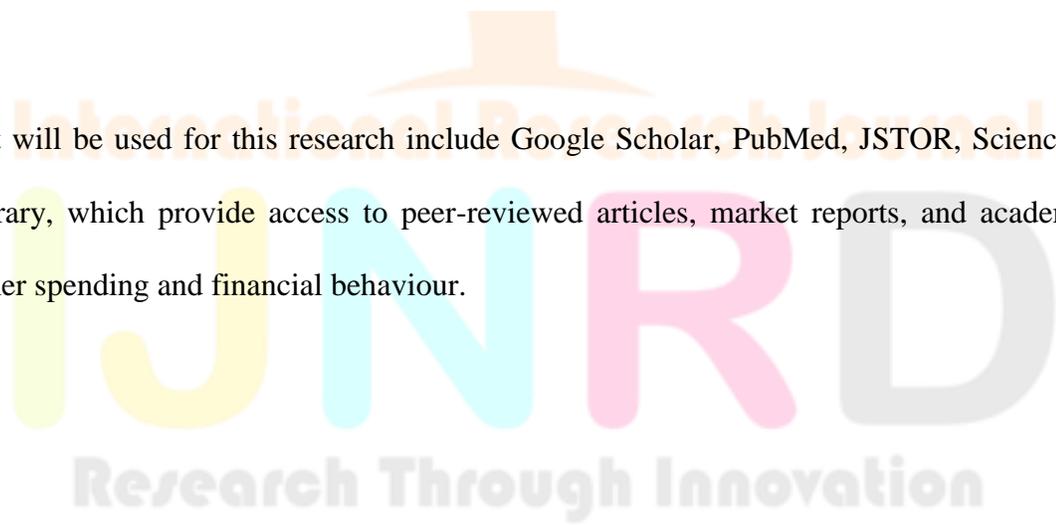


3.7 Inclusion and Exclusion Criteria

Inclusion Criteria	Exclusion Criteria
1. Relevance to the Research Topic	1. Irrelevant to the Research Topic
Studies directly related to psychological factors influencing consumer spending and financial behaviour.	Studies that do not address consumer spending or financial behaviour.
2. Source of Data	2. Unavailable or Incomplete Data
Peer-reviewed articles, market reports, and industry analyses from reputable sources.	Data from non-peer-reviewed sources or incomplete data that cannot be analysed effectively.
3. Date Range	3. Outdated Sources
Publications from the past 10 years to ensure current relevance.	Studies or data older than 10 years unless they are seminal works with foundational theories.
4. Language	4. Language Barriers
English-language sources for consistency in data analysis.	Non-English sources unless translated and verified for accuracy.

3.8 Databases

The databases that will be used for this research include Google Scholar, PubMed, JSTOR, ScienceDirect, and Wiley Online Library, which provide access to peer-reviewed articles, market reports, and academic journals relevant to consumer spending and financial behaviour.



3.9 Keywords/ Boolean Operations

Keywords	Boolean Operators	Search Queries
Consumer spending	AND	"Consumer spending" AND "psychological factors"
Financial behaviour	AND	"Financial behaviour" AND "marketing influence"
Psychological factors	AND	"Psychological factors" AND "consumer behaviour"
Marketing influence	OR	"Marketing influence" OR "advertising impact"
Cognitive biases	AND	"Cognitive biases" AND "consumer decisions"
Emotional drivers	AND	"Emotional drivers" AND "financial choices"
Lifestyle factors	AND	"Lifestyle factors" AND "financial behaviour"
Social influences	AND	"Social influences" AND "consumer spending"

3.10 Ethics

Ethical considerations were paramount in this research. Secondary data used in the study was sourced from reputable and authorised publications, ensuring that the research complied with intellectual property laws and ethical standards. The research process was conducted with integrity, respecting the confidentiality and accuracy of the data. Additionally, the study avoided bias and ensured that findings were presented transparently and honestly.

3.11 Summary

The research methodology employed an interpretivist philosophy and a deductive approach to investigate consumer spending and financial behaviour. The explanatory research design, combined with secondary data collection and thematic analysis, aimed to provide a comprehensive understanding of the psychological and social factors influencing financial decisions while adhering to ethical standards.

Chapter 4: Findings and Discussions

4.1 Introduction

Chapter 4 presents the findings and discussions of the study, focusing on three themes: psychological factors influencing consumer spending, the impact of marketing and advertising, and the role of lifestyle choices.

4.2 Findings

4.2.1 Theme 1

Authors	Methodology	Findings
Di Crosta <i>et al.</i> (2021)	Online survey to 3833 participants	Anxiety and fear of contracting COVID were shown to predict consumer behaviour towards needs, whereas sadness was found to predict consumer behaviour towards non-necessities. Also, consumer behaviour towards needs and wants was influenced by factors including personality, economic stability perceptions, and reasons for buying.
Yahaya & Bakar (2020)	Quantitative method among 384 respondents	As a consequence, economic, social, and technical variables all have a substantial impact on consumer spending while using credit cards, with the technology aspect having the most impact. Researchers have the option of including more variables or using the suggested new conceptual framework in their future studies.

Table 1: Thematic Table 1

(Source: Author)

4.2.2 Theme 2

Authors	Methodology	Findings
Sama (2019)	An online survey method among 529 respondents	It is statistically obvious that television and the Internet have an influence on consumers' AWR, INT, and CON. Publications such as newspapers and magazines were also shown to have a significant impact on consumers' PUR and PPUR habits. Using this study as a guide, advertising managers may spend in the right medium to make ads more objective.

Falebita <i>et al.</i> (2020)	Secondary data collection from 67 local and international articles	The impact of advertisements on consumer behaviour remains highly subjective and cannot be generalised, according to this paper's findings. Several elements impact the correlation, including the style of advertising, the nature of the product being studied, sex, age, degree of education, and religion, among many others.
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Table 2: Themetaic Table 2

(Source: Author)

4.2.3 Theme 3

Authors	Methodology	Findings
Hoffmann & Risse (2020)	HILDA Survey	The pursuit of both a healthy lifestyle and financially responsible behaviour may be explained by personality factors. Policymakers may use these behavioural insights to create better programs that help people achieve positive health and financial outcomes.
Halim & Dinaroe (2019)	Purposive sampling method	The outcome demonstrates that the choice to buy Apple goods is substantially influenced by factors such as lifestyle, financial attitude, and personal worth. However, because the regression coefficient came out negative, researchers may conclude that personal worth has not moderated the relationship between financial attitude and lifestyle choices when it comes to making purchases.

Table 3: Themetaic Table 3

(Source: Author)

4.3 Discussion

4.3.1 Theme 1

The literature review identified emotional drivers and cognitive biases as critical psychological factors in consumer spending. Emotions such as happiness, stress, or nostalgia often lead to impulse buying as a form of emotional relief (Mahendru *et al.* 2022). Cognitive biases like the anchoring effect and the bandwagon effect further influence purchasing behavior by shaping how consumers perceive value and popularity (Kaur & Malik, 2020).

In contrast, data analysis from Di Crosta *et al.* (2021) highlighted the impact of specific emotions related to the COVID-19 pandemic on consumer behaviour, showing that anxiety and fear predicted purchasing needs, while sadness predicted buying non-necessities. Additionally, personality traits and perceptions of economic stability were identified as significant influencers, broadening the scope of psychological factors beyond those highlighted in the literature review. Yahaya and Bakar (2020) also pointed out the significant influence of economic, social, and technical variables on consumer spending, particularly in the context of credit card usage.

4.3.2 Theme 2

The literature review underscored the persuasive power of marketing through emotional appeals, behavioural conditioning, and social proof, which collectively shape consumer preferences and purchasing decisions (Vázquez-Martínez *et al.* 2021). It emphasised the effectiveness of targeted advertising and the influence of social media on consumer choices, showing how marketing strategies can foster brand loyalty and drive sales (Di Crosta *et al.* 2021).

Empirical data from Sama (2019) supported these findings, revealing that mediums like television and the internet significantly impact consumer awareness, intention, and consumption patterns. This aligns with the review's assertion that emotional and social appeals in advertising effectively drive consumer behaviour. However, Falebita *et al.* (2020) found that the impact of advertising on consumer behaviour is highly subjective, influenced by diverse factors such as ad type, product nature, and demographic characteristics.

4.3.3 Theme 3

The literature review highlighted that lifestyle choices and personal values strongly influence financial behaviour, such as spending, saving, and investing. It pointed out that individuals with high financial literacy tend to make more prudent financial decisions (Qazzafi, 2020)). The findings stressed that personal preferences, such as a penchant for luxury or minimalist living, dictate financial priorities and resource allocation (Loxton *et al.* 2020).

In comparison, data analysis from Hoffmann & Risse (2020) and Halim & Dinaroe (2019) provided specific evidence of lifestyle and personal choice impacts on financial behaviour, such as the pursuit of healthy living aligning with financially responsible behaviour due to personality factors. This contrasts slightly with the literature

review, which broadly posited personal values as a key influence without highlighting specific moderating conditions.

4.4 Summary

The findings underscore the complex interplay of psychological, marketing, and lifestyle factors in consumer behaviour. Emotional drivers, targeted advertising, and personal values significantly influence purchasing decisions, aligning with literature review insights.



Chapter 5: Conclusion and Recommendations 300

5.1 Conclusion

This research highlights the intricate dynamics between psychological factors, marketing influences, and lifestyle choices in shaping consumer spending behaviours. Key psychological drivers, such as emotional states and cognitive biases, significantly impact purchasing decisions, often leading to impulsive buying. The study also emphasises the powerful role of marketing strategies and advertising, which leverage emotional appeals and social proof to influence consumer behaviour. Additionally, lifestyle choices and personal values play a crucial role in financial decision-making, affecting how individuals prioritise their spending, saving, and investing. Understanding these interconnected factors offers valuable insights for businesses and policymakers aiming to better align strategies with consumer behaviour.

5.2 Recommendations

Businesses should leverage psychological insights to craft more personalised and ethical marketing strategies that resonate with consumers' emotional and cognitive drivers (Di Crosta *et al.* 2021). Companies can enhance customer engagement and brand loyalty by utilising data analytics to target specific consumer segments with tailored advertising. Policymakers should develop educational programs to improve financial literacy, helping consumers make more informed financial decisions and reduce impulsive spending driven by emotional triggers (Qazzafi, 2020). Additionally, promoting responsible advertising practices that consider the ethical implications of influencing consumer behaviour is essential. Future research should explore the evolving impacts of digital marketing and technology on consumer spending, particularly in the context of emerging behavioural trends (Loxton *et al.* 2020).

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