

The Psychology of Discounts: Perception Shaping Economic Decisions

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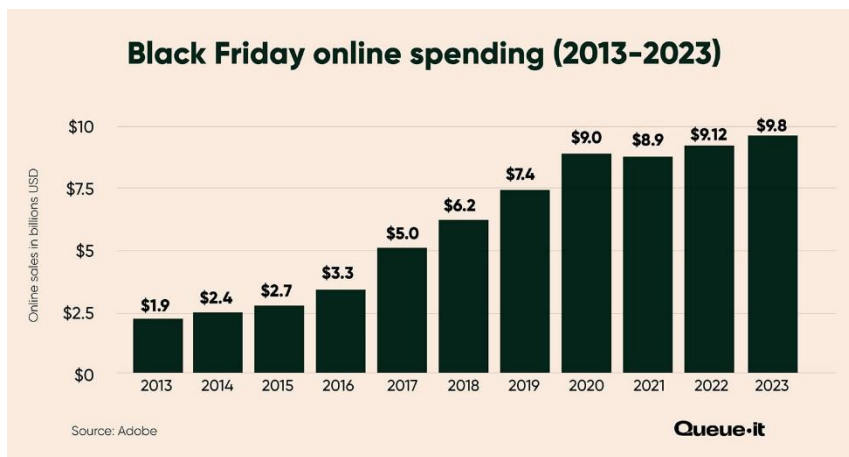
Have you ever bought something because it had a 50% off tag? This simple tag can be so attractive that turning back becomes impossible even when the product is unnecessary. It's not about money; rather, it deep-sits into the psychological design of feeling like a savvy shopper and a smart customer. For instance, a study by Paul Zak of Claremont Graduate University discovered that discount coupons increase the level of oxytocin – the hormone responsible for feelings of happiness, love, and trust, in the human body. Besides this, limited-time offers manipulate people's psychology and emotions by creating a time-sensitive feeling, and thus people make impulse purchases.

Hence, businesses have completely consumer behaviour through discounts, and utilise it for their profits. Behind these simple price cuts, lies an interesting play of psychology and economics. Anchored in behavioural economics, the phenomenon depicts that consumer behaviour is not always rational - it is an emotional and perceived benefit-driven action. For businesses, understanding the psychology behind a discount is more of an apparatus to stimulate demand, clear inventory and drive sales in the short run. Whereas for consumers, it is a dance of opportunity and temptation that often tests self-control.

Among the many, "Anchoring" is one of the most common tools applied in discounting spheres. A tag slugged with 100 and a cross through it, with 70 in bold print reduces the perceptual value of the customer as the brain digests the value of 100 as a benchmark and makes 70 look like a big discount, perceiving it as a win situation. This economic tool takes advantage of human's disposition to judge comparative value rather than absolute value. Anchoring prices shifts a higher percentage of the consumer surplus into the pockets of a retailer. For instance, by online retailers such as Amazon, prices are anchored to an inflated original price besides the discounted price and hence, maximizes sales without affecting profitability. Not only online retailers, but the large store owners also come into the market with similar strategies.

The other significant psychological pusher for marketers to drive consumer behaviour is "Fear of Missing out or FOMO". Phrases like 'only 3 days left' push the shoppers to take action immediately, and the sense of urgency kills all rational decision-making. Thus, it compels customers to choose purchases over careful thought. In economic terms, the scarcity mindset is created in customers due to a FOMO-driven strategy. It changes

consumer behaviour by shifting future demand to the immediate demand, normally at the cost of future purchasing power. The best examples of how businesses sell out their inventory and increase conversions are Black Friday and End-season sales, which by integrating anchoring and FOMO, nudges impulsive purchases. [Direct-to-consumer brands](#) and e-commerce marketplaces are estimated to have recorded a 17-18% increase in order volumes during the year 2024 [Black Friday](#) weekend, compared to last year.



Along with “how much”, the way discounts are offered also influences consumer behaviour. Based on behavioural economics, this can be explained through the principle of DIMINISHING SENSITIVITY, according to which, the perceived benefit of a discount reduces as the monetary value of the product increases. Percentage-based discounts are usually effective for commodities with higher prices because savings become significant in relative terms. It shows the amount of discount that would allure the consumer from buying an overpriced item. With items having a low price, an absolute discount is much more attractive, as consumers always measure it in terms of proportion to the original base price. It is relatively easier to compute mentally and understand the actual dollar instead of a percentage discount.

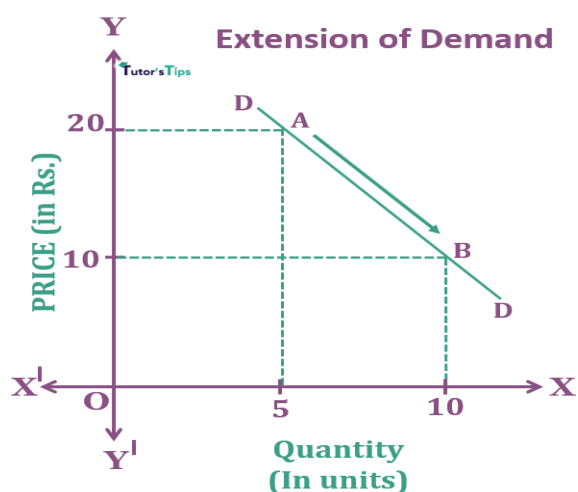
Another highly effective psychological weapon used by businessmen is the DECOY EFFECT. According to the principles of behavioural economics, it is that concept that describes how people's preferences change in case a third, less desirable alternative is added to the option of choosing between two options. The ‘decoy product’- the additional product that is added to make the target product superior, makes the target option better if such deals are bundled. The Decoy Effect is based on ‘asymmetric dominance’- providing a comparative advantage to one option in establishing it as the most attractive one. Consider an example of a café whose menu is -:

- A Small Coffee for \$5

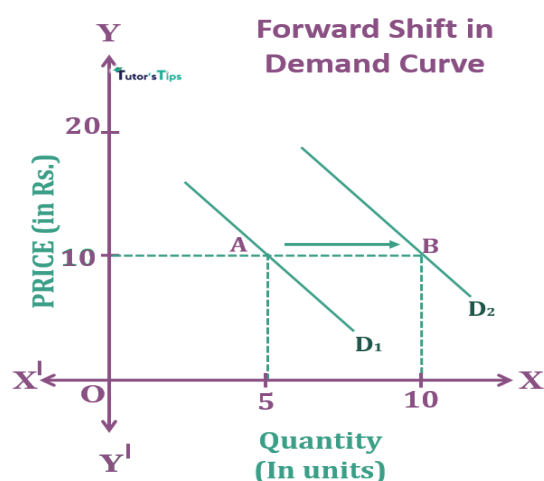
- A Big Coffee for \$7
- Muffin and Big Coffee for \$ 7.5

You will choose the third option. Here, the decoy product is the big-size coffee, which is used to shift the choices of customers toward the 3rd option that is considered best among all three. The price is nearly at par with the \$7.5 bundle; however, it provides less value because a bundle of goods is not provided. But, overusing the decoy effect can affect the brand loyalty of customers. Sharpened customers will know how to make decisions well, thus being able to avoid the nudged choices that do not align with their preferences.

Considering the interplay between psychology and economics, bringing in the purer and more fundamental economics enhances the clarity regarding the topic, by showing the on-ground reality. As prices decrease, the consumers buy more at a lesser price, and this will cause movement along the demand curve. Such movements have economic backing on the Law of Demand. The movements are, however short-lived because when the prices return to normal, so does the demand. This is how retailers clear out their inventories and give wings to instant cash flows.



Sometimes, discounts do not just increase purchases by existing customers. They shift the entire demand curve outward. This happens when lower prices attract consumers who formerly could not afford the product. This shift can be long-lasting if expectations are met during such a period and repeat purchases occur even after the prices return to normal. With this, we can conclude that the longevity of discounts depends on whether it leads to movement along or a shift in the demand curve.



These discounts do not benefit a business alone but have a trickle-down effect on the economy. At the macroeconomic level, it also boosts seasonal economic activity that boosts the numbers of retail sales and, therefore, impacts the GDP growth. Yet, a persistent event in the due course, makes the customers wait for the discounted products and, thus, encourages lower sales of standard-priced items and reduced margins. Hyper-discounting in a highly competitive business may hence result in a price war, that destabilizes the market and kills the small players, leaving them unable to sustain such practices.

Discount strategies provide a glimpse of another fundamental concept of economics- PRICE ELASTICITY OF DEMAND. Price elasticity can be seen as an actual real-life experimentation. Businesses can classify their goods and refine their discounting strategy by observing the behaviour of the consumers at various discount levels. Price elasticity has macroeconomic effects as well, such as the impact on market stability. High discounts in elastic markets such as luxury goods produce unpredictable spending surges while inelastic markets, like medication, tend to remain more stable and can dampen volatility in the economy caused by the elastic goods. Understanding price elasticity helps businesses strategize the allocation of discounts in a way that maximizes return on promotional investments, whereas the understanding of elasticity by consumers makes them better deal assessors rather than impulse buyers on every price cut.

Despite being a very powerful sales driver, discounts do have the negative effect of “cannibalizing revenue”. It results from an intense discounting on one product, diverting the sales away from higher-margin alternatives, which reduces profitability altogether. In this, businesses must adopt a balancing strategy where there is an integration of both short-term sales objectives as well as long-term profitability. On a macro level, uncontrolled cannibalization can cause price wars within industries. Competing for market share in such

a manner, cuts through margins across the board, making it hard to sustain themselves with smaller businesses.

In the modern world dynamics, technology has changed discount psychology from a broad, one-size-fits-all approach into something precise and data-driven. Thanks to data analytics, artificial intelligence, and machine learning, companies can now adopt the most personalized and dynamic discount strategies. They will have the maximum psychological and economic effect. Personalization is the heart of technology. The retailer can analyze huge consumer data, thus tailoring the discounts according to an individual's preferences, browsing history, and purchase history. Technology-based discounting is more efficient on an economic level because companies can focus on the budgets that would bring the most impact. Personalized offers reduce waste; that is, the discounts issued to individuals who would have purchased regardless. Technology-based discounting also enhances the psychological effects noted above: FOMO, anchoring, decoy effects, and perceived exclusivity. For instance, Amazon uses AI to offer "lightning deals" or "recommended for you" discounts, compelling users to impulse buy.

Discounts are thus far from a tool to boost sales; instead, they become a lens through which the complex relationship between psychology and economics comes sharply into focus. Each sale, coupon, and price cut has its origin in strategy, playing on human psychology, inducing demand, and thus influencing economic results. For companies, it is now the delicate art of achieving that sweet spot between immediate sales uplifts and sustainable brand strength since too much discounting destroys margins and habituates customers to seek only permanent lower prices at the expense of the brand's value. A discount not only influences individual consumer behaviour but also moulds the broader macroeconomic trends. Large-scale events of sale, such as Black Friday and Singles' Day, are turning into economic phenomena that churn billions of dollars in revenue, reshaping whole industries. Businesses carefully integrate economic principles with psychological insights to serve offers that resonate with customers while conserving long-term sustainability. Both businesses and consumers must relate to them appropriately as the nature of discounting becomes highly technological and behaviorally informed.