

# Austrian Economics and its Application to Consumer Behavior



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## What is Austrian Economics?

The **Austrian School of Economics** derives its name from its Austrian founders and early supporters, including Carl Menger, Eugen von Böhm-Bawerk and Ludwig von Mises. Other significant economists include Henry Hazlitt, Murray Rothbard and Nobel Laureate Friedrich Hayek. Current research is represented by, among many others, scholars from the Ludwig von Mises Institute.

This school emphasizes the spontaneous organizing power of the price mechanism and holds that the complexity of subjective human choices makes mathematical modeling of the evolving market extremely difficult (or impossible). Its proponents tend to advocate a *laissez faire* approach to the economy and the enforcement of voluntary contractual agreements between economic agents, but otherwise the smallest imposition of coercive force (especially government-imposed) on commercial transactions.



## Application to Consumer Behavior;

What makes it different from the traditional neoclassical form of economics that makes it superior when dealing with interpreting and understanding consumer behavior? To quote Deborah L. Walker, "Economics, to an Austrian economist, is the study of purposeful human action in its broadest sense. Since only individuals act, the focus of study for the Austrian economist is always on the individual" (Walker). Essentially, Austrian economics looks at the individuals themselves through the study of *Praxeology*, which focuses on understanding human action/behavior to determine what motivates and drives individuals and uses that as a basis for understanding how that will affect the overall market from an economic standpoint, rather than emphasizing the use of historical data to determine what will continue to drive future markets. This is because;

"Praxeology rests on the fundamental axiom that individual human beings act, that is, on the primordial fact that individuals engage in conscious actions toward chosen goals. This concept of action contrasts to purely reflexive, or knee-jerk, behavior, which is not directed toward goals. The praxeological method spins out by verbal deduction the logical implications of that primordial fact. In short, praxeological economics is the structure of logical implications of the *fact* that individuals act. This structure is built on the fundamental axiom of action, and has a few subsidiary axioms, such as that individuals vary and that human beings regard leisure as a valuable good." (M. N. Rothbard)

The axiom or understanding of action along with the consciousness and free will form the basis for Praxeology, and the belief that individuals act in order to fulfill desires to attain certain goals through consciously chosen thoughts. This belief ties directly into marketing and consumer behavior, whereby each individual consumer has individual preferences which are influenced by their own biases, preferences and prior choices. As previously discussed, consumers use value based reasoning in order to determine what product or service would best fit their need or goal that they are trying to satisfy.

## Austrian vs. Neoclassical Economics;

Since Austrian Economics looks directly at human actions, it also offers a more simple approach to understanding consumer behavior than its neoclassical counterpart, without requiring the vast amounts of mathematical modeling and hypotheses based upon past history in an attempt to predict future events. To quote Walker;

"Austrian economists do not use mathematics in their analyses or theories because they do not think mathematics can capture the complex reality of human action. They believe that as people act, change occurs, and that quantifiable relationships are applicable only when there is no change. Mathematics can capture what has taken place, but can never capture what will take place." (Walker)

This is especially true in the sense that individuals cannot be defined through mathematical modeling because of the free will on the part of the consumer. At any moment, the consumer can change their mind which will leave the different variables of the market – costs, prices, supply and demand – constantly in a state of flux that prevents accurately defined mathematical models to be useful. That is not to say that mathematics and other elements of physical sciences do not play a role in understanding consumer behavior (such as surveys being used to better understand future consumer behavior), but data and information like that can only be used to accurately predict what individuals wanted at that specific point and time, rather than adapting to their individual needs to determine. This is important in consumer behavior because marketer are trying to find the most accurate way to predict what consumers want, while at the same time attempting to understand them, and how their behavior will affect both current and future sales.