# Towards a New Theory of Consumer Choice

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***Abstract***

Consumer choice is one of the most important problems in economics. The consumer seeks a basket of goods that maximizes her/his utility under the budget constrain. The classical models in economics assume that individuals have unlimited ability to analyze information but recent literature demonstrates direct violations of transitivity and independence, which implies that people often do not maximize utility functions (Thaler 1999, Kahneman and Tversky 1974).

Thaler (1999) discovered that the individual divides the products into consumption categories and money is not fungible between categories. Thaler found that the higher the budget, the more flexible is the division to categories.

Our research so far presents a novel explanation for loss aversion. We present a model according to which the consumer's goal is to find a feasible basket that induces a payoff above a certain threshold ("satisficing"). This problem is NP-Complete, and therefore solving the problem entails a significant cost. This cost is the cause for loss aversion. The main results are that loss aversion is non-monotonic and under division of budget to categories, a smaller loss can lead to a loss aversion.

In our research, we plan to model consumer choice under categorization and combine maximizing, satisficing and a use of heuristics. We offer a novel notion, category elasticity, to define flexibility in re-assigning the budget between categories.