# Consumer Protection and Behavioral Economics through Protecting Competition – An Analysis

**Dr. Kamna Dhawan**
Faculty of Commerce, B.D.K. Mahavidhyalya, Agra (U.P.) India.

**ABSTRACT**
*The process of development coupled with increasing liberalization and globalization across the country has enabled consumers to realize their increasingly important role in society and governance. Customer protection and behavior study is based on government policies and consumer buying behavior. Customer behavior analysis as it has a keen interest in the re-discovery of the true meaning of marketing through the re-affirmation of the importance of the customer or buyer. A greater importance is also placed on consumer retention, customer relationship management, personalization, customization and one-to-one marketing. Social functions can be categorized into social choice and welfare functions. In this paper, I am going to consider the impact of competition over consumer protection. The theme of this paper is that, competition may sometimes and sometimes not overcome the problems associated with consumer Behavior but generally more competition does not make matters worse. The solution of the consumer problems is to reduce information gaps and educate consumers by protecting competition. The study focused on the effect of consumer Protection and Behavioral Economics by protecting competition in India. The research objectives include, establishing the relationship between consumer rights and level of consumer awareness; to establish the relationship between consumers and consumerism. The study made significant contributions on consumer behavior and consumer protection.*

***Key Words:*** Consumer; payer, buyer, end user, CI: consumer index, consumerism, CR: consumer right.

## I INTRODUCTION

In a developing country the level of literacy is very low; the people face a volume of problems, particularly in the context of consumer related issues. Consumer is defined as someone who acquires goods or services for direct use or ownership rather than for resale or use in production and manufacturing. Ensuring consumer welfare as the responsibility of the state. Policies have been framed and the Consumer Protection Act, 1986, was introduced. A separate department of consumer affairs was also created in the central and state government exclusively to focus on ensuring the rights of consumers as enshrined in the Act. This Act has been regarded as the most progressive, comprehensive and unique piece of legislation.

Consumer rights are the rights given to a "consumer" to protect him/her from being cheated by salesman/ manufacturer/ shopkeeper. Consumer protection laws are designed to ensure fair trade competition and the free flow of truthful information in the marketplace. The laws are designed to prevent businesses that engage in fraud or specified unfair practices from gaining an advantage over competitors and may provide additional protection for the weak and those unable to take care of themselves. Consumer Protection laws are a form of government regulation which aim to protect the rights of consumers. For example, a government may require businesses to disclose detailed information about products—particularly in areas where safety or public health is an issue, such as food. Consumer protection is linked to the idea of "consumer rights" (that consumers have various rights as consumers), and to the formation of consumer organization which help consumers make better choices in the marketplace.

Consumer interests can also be protected by promoting competition in the markets which directly and indirectly serve consumers, consistent with economic efficiency.

## II CONSUMER PROTECTION ANALYSIS

Consumer protection covers a wide range of topics, but not necessarily limited to product liability, privacy rights, unfair business practices, fraud, misrepresentation, and other consumer/business interactions.

Customer behavior study is based on consumer buying behavior, with the customer playing the three distinct roles of user, payer and buyer. Behavioral economics considers happiness when consumer has systematic biases in their decisions and in particular when their decisions are heavily influenced by local or situational influences and less by their regard to their long run well being.

The competition trends bring consumer and welfare benefits when consumers are fully rational and possess the requisite information to exercise choice. Competition may sometimes and sometimes not overcome the problems associated with imperfect information but generally more competition does not make matters worse. The policy solution is to reduce information gaps and educate customers as to appropriate options available. In effect, there are two related consumer problems that may come into play. The first is self control. Consumers would like to commit up front to certain aspects of their own future behavior but cannot. The second is naivety or non rational expectations where consumers do not realize, they would like to commit up front to those things. The distinction is important as we study the response of firms to real consumer behavior. Put simply, when consumers know they lack self control they will value and demand products that give them such controls. However, when consumers do not realize this, there is no demand for ways of overcoming it and exploitation may occur. Firms will adjust their own pricing strategies to take advantage of consumer misperceptions about the value of their own consumption.

The contention that is often preferred is that when consumers face difficulties in making rational choices, a competitive market may assist in bringing them better outcomes as firms will have an incentive to provide products that make consumers better off whether they are rational or not. Consider, for example, concern about pricing in after market (e.g. for ink for inkjet printers). If consumers are fully rational, then more competition assists in this process. However, what happens if consumers are not fully rational? In this case consumers may pay insufficient attention to information about after markets and firms may not derive an earlier advantage for providing it. In this situation, competition may not assist.

Competition is good at providing what consumers demand and not what they would otherwise want, so welfare may be harmed.

What all this means is the naïve consumers tend to over consume. That is, based on the prices they actually pay, they end up purchasing too much. This is either because they over estimate valuable usages or because they under estimate the cost they will later incur. When there are switching cost involved, they under estimate those cost and hence, over value future competition. This means they will be willing to accept less up front compensation to overcome those cost. In this respect, they end up paying too much for the goods and services they ultimately receive. It is worth nothing here that over consumption as a result of naivety can also occur when consumer simply fails to anticipate the price of complementary goods and to invest in options to substitute away from those goods if possible. In this case naïve consumers will fail to take those investments and end up consuming more of the complementary goods than they need to.

## III CONCLUSION

This all means that we cannot rely on competition to protect naïve consumers from pricing and other practices that would include them to over consume. That over consumption is coming because the market is providing them what they perceive they want and distorts things even further in delivering it to them. But what does this suggest about other that might protect consumers. Consider price regulation, this could set usage charges, but on what bases would these be set? Recall that such charges are optimally above or below marginal cost if agents have problem of self control. Thus, at this stage, we have no bench mark upon them. This does not mean, however we are left with education of consumers as the only feasible solution not that it is ever a bad thing. Behavioral economics paired with a careful analysis of firm incentives can yield an inside into undesirable practices. In the end, a careful examination of an industry, it's pricing and consumer behavior can lead us to identify problematic practices. By eliminating those perhaps competition can serve more useful ends.

The main conclusion here is that when approaching many, competition matters, actual consumer behavior do have a role to play. This will certainly be the case when competition authorities come to evaluate such things as changes in cross ownership media laws and incentives to engage in miss leading advertising.

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