



Chapter IX

Economics of Immediate Gratification in Mobile Commerce

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Abstract

In this chapter we attempt to build a bridge between mobile commerce and the emerging field of behavioral economics. We first provide examples from mobile commerce and link them to behavioral economics. We then build a stylized model to assess the impact of hyperbolic discounting on the profit-maximizing behavior of a monopolist firm. We find that the monopolist makes lower profits compared to exponential discounting consumers for low levels of (positive) network externalities. As the network externalities increase, first-period prices increase, second period prices decrease and the profits increase in equilibrium.

Introduction

Shopping is ubiquitous. Malls and individual shops face the first stage of expansion to the digital environment through fixed wired Internet. Electronic commerce initiates huge investments and leads to controversies as well as financial disappointments since the mid-1990s. From early 2000 onward we are facing a second wave of digital commercial growth. Wireless technologies are enabling individual consumers to access information wherever they are and whenever they want.

Although the use of mobile devices is evolving rapidly, the investigation of mobile consumer behavior is lacking. An increasing number of electronic commerce services for mobile devices coupled with swift adoption rates will enable mobile operators to provide effective customer services and gain competitive advantage. However, this can only be achieved by analogous deeper understanding of mobile users' behavior.

A tool to understand the consumer behavior within mobile context comes from the field of economics. Neoclassical economics approaches the individual as a rational decision maker faced with a series of consumption choices. The corresponding model of human behavior is called "*Homoeconomicus*," who is endowed with perfect rationality, self-interest, and knowledge. In reality humans are largely driven by their emotions, and emotions are often irrational. They also perform altruistic acts like charity, volunteerism, lending a helping hand, parenting, and even giving one's life for one's country. These all fall contrary to the assumption of self-interest. They perform self-destructive acts like substance abuse, negative addiction, negative risk-taking, procrastination, inability to complete projects, masochism, and suicide. They are also highly ignorant about all their affairs; they can be expert in only a few topics at a time (Laibson, 2001). In parallel to the technology achievements in wireless communications, maybe relatively less rapidly, our understanding of the "homoeconomicus" is expanding toward a complementary economic perspective of the homosapiens. As we discuss in the next section, behavioral economics provides novel concepts using traditional tools. Our goal in this chapter is to discuss the viability of some of the mobile business models through the lens of behavioral economics.

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