

Part 4:
Mental Accounting

Mental Accounting:

We assign money to mental categories.

Lost Pieces of Paper



item lost

buy ticket?

perceived
ticket cost
(if purchased)

case 1



no

\$200

case 2






yes

\$100

The ticket and the cash are each worth \$100, but we treat them differently.

Lost Pieces of Paper

	item lost	buy ticket?	perceived ticket cost (if purchased)
case 1		no	\$200
case 2		yes	\$100



1) Assigning money to categories controls how we feel about that money.

2) We treat unassigned money differently.



Money for the trip is either:

- deposited to your checking account in advance

OR


- given to you in cash when you arrive.



Saving – low interest
checking account



Spending – high
interest loans



Even though money
is fungible, it isn't
always treated
that way.



Mental accounting can
be an adaptive strategy.

It allows us to:

- partition our spending
- make financial decisions
more manageable

isions

Two approaches for
helping people think
about money:

- 1) assume we are rational
and can effectively
manage money
between categories
OR
- 2) optimize existing
mental accounting
techniques, even if
they are irrational