

## **The effect of present-biased preferences on the consumer utility derived from early novelty switching**

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Firms launch innovations more and more frequently in developed markets such as car, smartphone, computer, or clothing market. Individuals with present-biased preferences are inspired to gain innovations immediately to enjoy their benefits as soon as possible. They tend to adopt an innovation after the previous one before it would be rational, that is, early novelty switching occurs. Impatient consumers are also prone to give up their long-run purposes (Hoch and Loewenstein, 1991) and finance the desired goods partly or totally by credit (Meier and Sprenger, 2007; Limerick and Peltier, 2014; Kuchler, 2015; Barboza, 2018). These facts can be explained according to O'Donoghue and Rabin (1999), who state that present-biased preferences reflect that an individual gives proportionately greater weight to the present than to any later date.

The purpose of this research is to investigate from a behavioural economic perspective how present-biased preferences influence the adoption of innovations and early novelty switching. A simple theoretical model has been developed that proceeds on the hyperbolic discounting utility function described by Laibson (1997). It aims to describe and analyse how present-biased preferences affect the consumer utility stream when innovations are launched frequently. The model considers the type of innovation purchased, the method of financing (cash or credit) and the impatience level. The adoptions of functional innovations, stylistic innovations and innovations with both functional and stylistic novelties are studied separately. The results show why impatient consumers tend to buy the desired novelty by borrowing. The findings demonstrate how the price level and the added value of innovations, and the impatience level affect impatient consumer's utility stream, and also compared to patient consumers when innovations are launched frequently. Although early novelty switching shortly may not be advantageous from the purchasing date of innovation, it may be beneficial in the long run because losing social position can be prevented. The model can be applied to compare the outcomes of the purchasing decisions of consumers with various impatience levels and to demonstrate the short- and long-term consequences of impatience. The findings may be beneficial both for the researchers of behavioural economics and practitioners.

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