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Breaking Your Budget? Why Consumers Overspend on Exceptional Purchases

Consumers routinely overspend on unbudgeted purchases such as birthday gifts, car repairs, or luxury chocolates because they underestimate the overall number of such “exceptional” purchases, according to a new study in the [Journal of Consumer Research](#).

“This tendency to underbudget for so-called ‘exceptional’ purchases occurs because, although each purchase is unusual in isolation, when combined they tend to occur with unexpected frequency,” write authors Abigail B. Sussman (Princeton University) and Adam L. Alter (Stern School of Business, New York University). “People fail to recognize just how many items fall into this exceptional category, so they spend more than they would if they realized how often they were spending on these exceptional purchases.”

The authors found that consumers forecasted ordinary expenses accurately but underestimated how much they would spend on exceptional products. Consumers were willing to pay more for exceptional items when presented one at a time than when they were presented all at once. “Consumers tend to treat each exceptional purchase as though it exists in isolation, rather than incorporating it into their budget as one in a series of unique purchases,” write the authors.

For example, imagine that one of your favorite bands is performing nearby. The ticket costs more than you would ordinarily spend, but you have never seen this band live and decide the experience is well worth the cost. The following week, your TV breaks and you buy a really expensive replacement since you only buy a new TV once every few years. A week later, you are celebrating your 10th wedding anniversary. Since this is a once-in-a-lifetime event, you decide that the occasion warrants a splurge.

“Failure to aggregate unusual purchases leads consumers to splurge on purchases that they would view more conservatively if they understood these connections. Overall, this tendency results in overspending and under-saving,” the authors conclude. “Understanding differences in accounting for ordinary and exceptional expenses can help consumers make wiser budgeting decisions.”

Abigail B. Sussman and Adam L. Alter. “The Exception Is the Rule: Underestimating and Overspending on Exceptional Expenses.” *Journal of Consumer Research*: December 2012. For more information, contact Abigail Sussman (asussman@princeton.edu) or visit <http://ejcr.org/>.

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