

Application of Status Deviation and Its Influence on Consumers' Purchase

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Abstract. In modern society, consumers exhibit a reduced propensity to make divergent or autonomous choices; instead, they tend to conform to choices predetermined by institutional frameworks or producers. Besides, producers prefer to make a small change to their old products instead of creating a new one. This trend may lead to less innovation, and fewer people are willing to start up a business. This behaviour is called keeping the status quo. This paper examines the concept of status quo bias. It is a common psychological factor in decision-making. The paper explains the basic definition of the status quo bias, illustrates the mechanism of how it works and how it will influence consumer choices, and accounts for why people often accept default options instead of making some changes even when changing is more beneficial to them. By integrating theoretical frameworks and empirical evidence, this paper aims to reveal how status quo bias shapes economic agents' behaviors and highlights its significance for consumers, producers, and policymakers alike.

Keywords: status quo bias, default options, Consumers' Purchase, economic behavior

1. Introduction

The study of classical economics, encompassing microeconomics and macroeconomics, is predicated on the fundamental assumption that individuals are rational and will not be influenced by other factors, such as psychological factors. However, in real life, people are irrational and vulnerable to external factors, so they will make some unusual decisions that cannot be predicted and cannot be explained with traditional principles of economics. These departures from the ideal model in human decision making are not random errors, but are caused by predictable cognitive biases. Among these, behavioral economics has identified several biases and heuristics that help explain why individuals often depart from the predictions of classical economic theory. This paper focuses on how status quo bias will affect consumers' decision-making and how producers will take advantage of the bias to make more profits or to reduce costs of production, drawing on empirical evidence presented by Johnson [1]. For individuals, understanding status quo bias can help them avoid missing opportunities to improve by changing something. For firms, understanding this concept can help them make better marketing strategies and increase the competitiveness of their products in the market to earn more profit. For the government, this concept can help them make policies that can benefit the whole society.

2. Overview of status quo bias

2.1. Status quo bias

Status quo bias is defined as an inherent preference for sustaining one's existing circumstances and resisting actions that could alter the prevailing state of affairs [2]. Richard Zeckhauser and William Samuelson described it as the strong possibility that one of the alternatives will always be "do nothing" or the continuation of prior decisions [3]. When individuals are faced with new opportunities, many people still select the status quo option, such as buying the same brand or remaining in the same job.

2.2. Causes of status quo bias

The first one is uncertainty. Uncertainty is an individual-specific uncertainty regarding the distribution of gains and losses from a reform [4]. Individuals lack prior knowledge of whether a change will yield benefits or incur losses, rendering the maintenance of the status quo a more stable and lower-risk strategy.

The next factor that causes status quo bias is the default effect. The default effect is defined as 'the difference in choice between the opt-out condition and that in the opt-in condition'. Specifically, this denotes the phenomenon wherein a pre-selected option is disproportionately chosen merely due to its designation as the default [5]. Not only because the option is designed as the default, but also because changing from the default option needs a lot of effort, such as time and money, individuals may stay with the default because it is easier [5]. Under this situation, the default option is the status quo, and that is why individuals are likely to maintain the status quo.

The third reason is that individuals will regret their change from the default option. As mentioned before, individuals do not know whether they are gainers or losers after changing from the status quo [4]. If they are the losers after switching, they may regret making this change, the original one (the default option) is much better than the other option. As a result, when the next time they need to make a choice, if there is a default option, they may retain the status quo. The endowment effect also has a strong link with status quo bias. The endowment effect is defined as the tendency for people who own a good to value it more than people who do not [6]. Consider an investor who holds a set of investment portfolios; if the price of the portfolios falls, because of the endowment effect, investors think the value of the portfolios they own is much higher than the market price, so the investor may still keep the portfolios and not sell them at the current low price. This action shows they are maintaining the status quo. Also, in this situation, investors have already bought the portfolios. The money they paid is the sunk cost. The sunk cost effect is characterized by an increased propensity to persist with an investment in which money, effort, or time has been made [7]. Consequently, the investors will maintain the status quo and continue to hold the portfolios.

Beyond the four causes, a fundamental cognitive principle known as loss aversion will also lead individuals to stay with the status quo. Loss aversion is that losses and disadvantages exert a more pronounced influence on preferences than gains and advantages, so people are more likely to avoid losing something [8]. For individuals, changing from the default means they need to give up the things they have already owned, which will be regarded as a loss, and to find or chase potential and uncertain returns. Because losing will bring more pain than returns, individuals may think that 'maintain the status quo' will be much happier, so they tend not to make a change from the default. Hence, individuals are likely to do nothing than make a change.

3. Applications of status quo bias

3.1. Car insurance

An illustrative real-world case occurred in 1992. There were two types of insurance in the U.S. The first one was 'Unlimited Tort', which typically entitles policyholders to pursue legal claims for non-pecuniary damages—such as pain and suffering—arising from an accident. The other one was 'Limited Tort', which means it restricted the rights of the individuals to sue for the non-financial losses unless for extreme injury.

In New Jersey, the default option is 'Limited Tort'. The consumers need to opt to choose the 'Unlimited Tort' option and pay more premium to obtain full legal recourse in an accident. About 20 percent of drivers chose 'Unlimited Tort'. However, in Pennsylvania, the default option was 'Unlimited Tort', which means the consumers need to agree to give up the right in order to pay less premium. About 75 percent of drivers chose to retain the full right to sue if there were an accident. The difference in the percentage of drivers choosing insurance reflects how the default option would affect consumers' decision-making. From the economics perspective, when fewer individuals opt for Unlimited Tort coverage—as observed in New Jersey—insurance companies can save about 200 million dollars on auto insurance [1].

3.2. Hotel

In China, numerous domestic hotel chains, such as Hanting Hotel, have a policy with 'Do not change bed sheet every day' as a default option when consumers check in. As most people will not change the default, the hotel does not need to change the bed sheets every day. Originally, the cleaner of the hotel needed to change the bed sheet every day for one customer, but now, the cleaner only needs to change the bed sheets every three days. In this case, it contains opportunity cost (the next best alternative forgone). The opportunity cost consists of the time and money spent running the washing machine to change bed sheets over the next two days. With this policy, the hotel can save time and lower the cost of washing bed sheets. It can use the time and money saved to provide better services, which can make it more competitive among other hotels.

3.3. Automatic-subscription

Numerous mobile applications and digital platforms prioritize recommending automatic subscription plans to consumers. Consumers may be attracted by the low membership fee for the first few months and choose to use automatic subscription at the beginning. However, after a few months, maybe the consumers fail to recall their enrollment in the automatic renewal plan, which means the apps are continuously charging the membership fee. In one explanation, because of the status quo bias, though the consumers might not use these apps every day, they tend to stick with the current situation to avoid the effort of making a change. The effort in this situation can be the time for them to find the entrance to cancel the automatic subscription. So consumers will probably not cancel the service. In the other explanation, when the consumer realizes they had bought this service after they saw the notice of member fee deduction, the next cycle of service has already begun. The money they paid for the next cycle is the sunk cost, so consumers will still use this app with a mind of 'Since the fee has already been deducted, I will continue to use the service. At least the service is there.' By the end of the second month, the consumers may forget to cancel the automatic-

subscription. This recurring pattern of inaction, driven by status quo bias and the sunk cost effect, enables platforms to secure sustained revenue streams and enhance long-term profitability.

4. Conclusion

This paper has examined the concept of status quo bias, clarified its core definition, investigated its underlying mechanisms, and analyzed its far-reaching impacts on consumer decision-making and economic behavior. Status quo bias always leads individuals to maintain the current state of affairs even when change can bring them benefits. Through a review of the literature, uncertainty, the default effect, regret avoidance, the endowment effect, and loss aversion play crucial roles in the formation of status quo bias. Furthermore, by applying this framework to real-world cases, such as the choice of car insurance plans, hotel policy of changing bed sheets, and automatic subscription services, this paper demonstrates how status quo bias shapes consumer choices, enables firms to reduce operational costs, and enhances their profitability.

However, this study has certain limitations. Firstly, the conclusions of this paper rely on theoretical foundations and case analyses from existing papers without employing practical methods, such as experiments and surveys, to directly test the mechanism of status quo bias. In addition, the range of referenced paper is limited, especially lacking cross-field comparative studies, which may affect the universality of the conclusion.

Future study could be extended in several perspectives: First, utilizing practical studies such as making survey among specific consumers, such as students and adults to examine the strength and limitations of status quo bias. Second, by combining with more range of literature, particularly from fields like digital platforms and emerging markets, it can provide a more comprehensive understanding of the evolution and impact of this bias in the contemporary economy.

In summary, understanding this bias is important for consumers, producers, and governments. For consumers, the awareness of this bias can help them make more rational and beneficial choices rather than stay with the defaults. For firms, it offers an effective tool for designing new marketing strategies that align with human psychology, thereby reducing the costs of production and achieving profit maximization. Also, policies like 'Do not change bed sheets every day' can mitigate negative environmental externalities—such as excessive water and energy consumption associated with frequent linen washing. For governments, making some default options can promote social welfare and save the government budget. Governments can use the left budget to improve education or healthcare, which can improve living standards. Moving beyond traditional economic models to incorporate behavioral insight like status quo bias yields a more accurate and pragmatic understanding of real-world economic behavior.

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