

Mental Accounting and the Illusion of Money: The Impact of Income Source on Gen Z Consumption Intentions

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Abstract. As Gen Z becomes the main consumer group, their irrational consumption behaviors based on differences in income sources have become increasingly prominent. Based on the theories of psychological accounts and the non-substitutability of money, this paper uses the digital payment ecosystem as a case to explore the mechanism by which income sources affect the consumption intentions of the Gen Z. The study found that the Gen Z categorizes funds into "hard-earned money", "safety net", and "free money" accounts through cognitive partitioning, presenting a significant dual-path effect: at the functional level, this mechanism reduces decision-making costs, activates experiential consumption and long-tail market demands; at the risk level, it induces impulsive consumption and debt cycles under the "free money effect", "label fixation" leading to financial dependence, and the "fragmentation paradox" and budget control failure in the multi-wallet ecosystem. Based on this, this paper proposes systematic strategies such as reconfiguring payment labels, strengthening financial socialization, and enhancing wallet transparency, expanding the application boundaries of the psychological account theory in the digital economy, and providing a theoretical basis and practical inspirations for building a healthy and sustainable digital consumption ecosystem.

Keywords: Mental Accounting, Non-Fungibility of Money, Gen Z Consumption, Digital Payment Ecosystem, Impulsive Spending

1. Introduction

1.1. Research background

Born between 1997 and 2012, Gen Z is a dominant consumer segment, particularly with respect to their tendency to label money according to its origin, which is the core of mental accounting theory. For instance, they will be more inclined to save and invest wages they earned by working than money they receive from their parents or do not have to pay for; if money is received by them from their parents or is freely available to them, impulsive consumption is likely to influence them. This 'non-substitutability of currency' is the very essence of the psychological account theory: Money is categorized into different psychological accounts because of where it is earned, how it is obtained, and where it is stored. There are different intentions of use and different risk tolerances, which are represented by different accounts. In fact, e-commerce websites have already picked up on this trick:

Alipay's "Balance Treasure Yield" encourages payment conversions with the low resistance to consumption of the "Investment Income" account, while Douyin's "Refund Instant Arrival" lowers the return rate by removing the "Lost and Found" account. Being a digital native, Gen Z has the ability to use many "physically isolated" wallets, including WeChat Wallet, Alipay, and digital bank cards at the same time. Every wallet relates to a different psychological account label, and account division is more refined than in previous generations. Understanding their NFU consumption behavior is therefore essential to maximize pricing strategies, create financial products, and control the systemic risks linked to the 'easy money' effect.

1.2. Theoretical underpinnings: mental accounting and prospect theory

Concerning the psychological explanations and the incompleteness of currencies, there is already extensive theoretical work. Thaler was the first to develop the theory of psychological accounts, which showed that the various types of income align with distinct patterns of consumption [1]. Kahneman & Tversky's prospect theory offered a framework for decision-making which demonstrated the non-interchangeability of different sources of currency due to loss aversion [2]. Shefrin & Thaler proved that the marginal consumption propensity of asset returns is the highest [3]. Prelec & Loewenstein described the concept of payment pain in the context of altering the mode of payment [4]. Thakur confirmed there are considerable differences between Chinese consumers' consumption propensities for "money given by parents" and "money earned by themselves" [5]. Although these studies demonstrate that money is not fungible, they tend to neglect the digital-native nature of Gen Z and its relationship to new sources of income (e.g., refunds, rebates) as well as multi-wallet ecosystems.

There is a major missing link in the integrated context of linking income source classification and account labeling, and ultimately differential consumption intentions, especially in a multi-wallet digital ecosystem.

1.3. Research framework

This paper provides an understanding of the dimensions of mental accounting, that is, the linking of income sources to account labels. It performs a dual-path analysis: a functional one of the functional utility of cognitive partitioning and a structural one of vulnerabilities, like 'House Money' and digital fragmentation. It therefore suggests that interventions could be integrated and could cover financial literacy, platform design, and regulatory frameworks.

2. Case description

This study relies on Gen Z consumers (18-28) and looks at the impact of income source on spending plans. Sources of income include salaries, money from parents, investment returns, social gifts (hongbao), and platform returns. These sources are each associated with different allocations: Labor income leads to necessities and savings, while parental transfers lead to experience goods; windfalls (returns/red packets) drive hedonic purchases (e.g., blind boxes), and refunds create an illusion of "free money," leading to impulsive repurchases. Gen Z uses a multi-wallet system (such as WeChat, Alipay, bank cards) and balances are psychologically divided, with incidental funds being used for discretionary spending and deposits for essential spending. This fragmentation of the digital world makes mental accounting boundaries more difficult to establish, which makes it more difficult to stay on budget. Key categorizations are summarized in Table 1.

Table 1. Rules to format sections

Income Source	Mental Account Label	Consumption Tendency	Pain of Paying	Key Implication
Salary/Wages	"Hard-earned"	Utilitarian; savings-oriented	High	Establishes budgetary baseline
Parental Transfers	"Safety-net"	Experiential; social/dining	Low	Promotes social capital; risks dependency
Investment Returns	"Windfall"	Hedonic; novelty-seeking	Very Low	Stimulates niche markets; inflates risk appetite
Refunds/Rebates	"Recovered Loss"	Impulsive repurchase	Near Zero	Boosts conversion; triggers debt cycles

3. Dual-path analysis: functional utility and structural vulnerabilities

3.1. Adaptive functions: cognitive efficiency and consumption stimuli

3.1.1. Cognitive partitioning and decisional efficiency

Gen Z is a digital-native consumer encountering a highly complex consumer market, consisting of huge product categories and numerous online shopping choices. If consumers think of all income and expenditure as a single, overall pool of funds, and imagine forming budgets repeatedly for each consumption behavior, they would be spending billions of decision-making costs when confronted with billions of commodity SKUs on the e-commerce platforms. The automatic fund classification offered by the mental accounting mechanism is an effective solution to this dilemma [1]. Gen Z mentally allocates their money into different 'emotional' budgets – spending on daily catering, entertainment, study, social consumption, etc. They can easily associate the consumption with the account when performing specific consumption behaviors, and rationally determine the consumption based on the remaining amount of the account. This type of simple cognitive judgment mode significantly reduces decision fatigue arising from too many options in the shopping process, increases the efficiency of everyday shopping and everyday consumption decision-making, and meets the rapid consumption of Gen Z groups.

3.1.2. Safety-net effect: enabling experiential consumption

For Gen Z, the role played by parental transfers is different from that of labor income, because it acts as a psychological cushion and consequently reduces the threshold for spending. This group regards transfers and contributions from parents as a psychological security net account, and it's very distinct from the hard-earned salary account [6]. This accounts for a stable cognitive label of Gen Z: the money is stable in terms of its source, cost-free to obtain, and requires no repayment. People have a much lower psychological hurdle to spending money that's not earned by themselves, like money from parents, than to spending money they have earned themselves, like a paycheck. This mental accounting function can lead to more active experiential consumption among Gen Z, such as traveling, going to concerts, social dinners, or cultural entertainment, as opposed to mindlessly saving money. These positive practices of consumption not only enhance their daily life and increase their own life satisfaction, but they also enable them to gain social capital, expand their social networks, and prevent social isolation due to excessive frugal consumption at the low-income stage.

3.1.3. Windfall effect: lowering payment pain and stimulating novelty

Passive income, such as Yu'E Bao returns, fund dividends, and platform rebates, is defined as windfall gains by Gen Z and included in a separate accidental gain psychological account. Unlike effortful labor income, passive returns (e.g., Yu'E Bao interest) are coded as windfall gains. This 'house money' effect minimizes payment pain, thereby elevating risk tolerance and marginal propensity to consume. Gen Z generally believes that the loss of windfall income will not bring economic pressure, so this account has an extremely high risk tolerance and consumption willingness [4]. This consumption logic makes Gen Z more willing to use investment income to try niche brands, limited-edition products, and new consumer categories. This positive consumption behavior effectively releases the long-tail demand of the consumer market, promotes the innovation and iteration of commodity categories, and provides continuous incremental development space for emerging consumer brands in the digital market.

3.2. Structural vulnerabilities: cognitive biases and financial fragility

3.2.1. "House money" effect and impulsive spending

Although the differentiated classification of mental accounting has positive consumption value, it also brings prominent negative consumption problems to Gen Z. Refunds, red packets, and rebates activate the 'House Money' effect, wherein Gen Z perceives these funds as decoupled from personal effort, drastically reducing consumption resistance [7].

These funds have almost no psychological consumption resistance, and the psychological distance of "non-self-hard-earned money" will be formed during consumption [2]. Especially after the instant refund function of e-commerce platforms realizes real-time fund arrival, Gen Z will generate a sense of pleasure in recovering lost funds, which greatly stimulates their secondary repurchase willingness. Relevant consumption data shows that the repurchase rate of users within 30 minutes after instant refunds is far higher than the daily average order rate. Long-term activation of the easy-money account will gradually shape irrational consumption habits, making Gen Z form the wrong cognition that money is easy to obtain. Combined with digital consumer credit tools such as Huabei and Baitiao, this cognition will induce continuous overdraft consumption. Many Gen Z consumers rely on future transfer income and temporary part-time income to repay current credit bills, forming a rolling debt cycle and falling into the dilemma of excessive personal debt.

3.2.2. Label rigidity and the erosion of financial autonomy

The long-term dependence on the parental transfer psychological account leads to the solidification of consumer cognitive labels, which seriously hinders the cultivation of Gen Z's independent financial management ability [6]. For a long time, Gen Z has regarded parental financial support as an unlimited and stable safety net, lacking basic budget constraints and fund planning awareness. This fixed mental accounting cognition makes them unable to adjust their consumption structure in a timely manner when parental transfer funds are reduced or delayed, resulting in account gap panic and forced borrowing behavior to maintain the original consumption level. More importantly, the long-term separation of parental funds and self-earned labor income makes it difficult for Gen Z to establish a correct financial cognition of "labor income is used for savings and long-term investment". After entering the workplace and completely breaking away from parental financial support, most of them suffer from financial adaptation disorders, showing typical moonlight

consumption characteristics that all salary income is spent in the short term, lacking independent financial planning and risk resistance ability.

3.2.3. Digital fungibility and the fragmentation paradox

As digital native groups, Gen Z usually manages multiple independent digital wallets, including WeChat change, Alipay balance, digital bank cards, and campus electronic accounts [8, 9].

Every physically separated digital wallet is independent in cognition, making it a fine-grained and scattered fund management mode. But, for digital payment platforms that utilize intelligent deduction design, the distinction between different psychological accounts is not well-defined [4, 10]. The automated feature of cross-wallet deductions hides the fragmentation paradox: users can think of different wallets, but in the end, the fungibility of digital assets means that the platforms can always access the 'serious money' while the users think that they are spending their 'play money', causing a systemic failure in the 'budget' process [11]. From their subjective point of view, Gen Z feels they are spending casual pocket money, but in reality, what they are spending is salary income that is deducted from their earnings. This cognitive deviation results in a total breakdown of personal budget supervision. Moreover, many online payment platforms like WeChat installment payment and Huabei also contribute to the danger of budget control failure. Gen Z often transfers funds and overlaps consumption among multiple digital wallets, resulting in a serious blind spot in overall fund supervision. Though there may still be a surplus in a single digital wallet, the total amount of personal funds might have been overdrawn, and eventually, there might be uncontrolled total consumption and irrational financial status [12].

4. Strategic interventions and policy recommendations

4.1. Cognitively reengineer payment labels to curb impulsive spending

Interventions should target cognitive relabeling and payment friction in order to address debt risks and impulse spending associated with 'spare money,' such as refunds or red envelopes. eCommerce platforms are recommended to optimize refund funds at the platform design level to make the refunds "not directly spendable" in the payment balance but rather in a savings account/investment balance. This ruptures the enjoyment of 'losing and winning money'. At the financial product level, a 'cooling-off period' should be instituted. The non-fungibility of mental accounts can raise the pain of spending money, as when users attempt to spend red envelopes, refunds, or credit on non-essentials, the system should force a pop-up reminder: "You are spending your hard-earned wages". Moreover, it should also be encouraged to label the account as 'goal-oriented' so that bonuses or investment gains can be automatically credited to a 'dream fund' or 'emergency reserve'. This is to use technology to strengthen their rational spending mentality and prevent this 'spare money effect' from becoming revolving debt.

4.2. Financial autonomy: a gradual socialization and support process

A tripartite support system is required in the areas of family, school, and society for nurturing true financial independence. This system should be designed to help move from dependent to independent financial behaviors. On the family education side, the "transitional financial support" model should be promoted instead of the unconditional "living expense transfer" to adopt the conditional "target matching fund" (such as savings matching, study incentives), so as to motivate

the Z-generation to form a virtuous cycle of "work - save - consume" and reduce the "free-money" mentality. At the university education level, "behavioral finance" and "psychological account management" should be included in the general compulsory courses, and through financial workshops simulating real income and expenditure, help students identify the differences between "salary" and "living expenses" in psychological accounts, and cultivate budget planning and risk resistance capabilities. At the social guidance level, media and social platforms should reduce the portrayal of fixed labels such as "refined poverty" and "moonlighting", and instead promote rational financial independence cases to help the Z-generation complete the cognitive transition from "dependent psychological account" to "independent psychological account" before entering the workplace.

4.3. Enhancing digital wallet architecture and transparency to resolve budget fragmentation

In the multi-wallet world, to overcome the problem of budget control failure, regulatory technology (RegTech) and user interface design (UI/UX) should be leveraged to improve the visibility and controllability of fund flows. First, the regulatory bodies should publish the guidelines for "Digital Payment Account Management" under which the payment companies will be required to provide clear and real-time notification of the automatic deduction made on the account/on the wallet, indicating the actual source of the deduction and eliminating the feeling of "spending little money". Secondly, payment platforms should develop a "panoramic budget dashboard" to break the isolation of physical wallets, integrate and display funds from WeChat, Alipay, bank cards, etc., and automatically generate categorized expenditure reports based on the theory of mental accounts to help users establish a unified view of their funds. Finally, limit the unrestrained promotion of "pay first and use later" (BNPL) products, and require platforms to assess credit limits based on the total account balance of users (rather than the balance of a single wallet), preventing systemic financial risks caused by digital substitutability from the source.

5. Conclusion

5.1. Key findings

Mental accounting and the non-substitutability of money theories are used as the foundation for this study to show the differentiated mapping mechanism of Gen Z's income sources on their consumption intentions. Gen Z classifies their salary, parents' transfer, and the investment/refund earnings into "hard-earned money," "safety net," and "free money" account, and it has a significant dual-path effect: at the functional level, cognitive partitioning can reduce decision overload, the safety net effect can make them feel more integrated into society, and the free money effect can induce market long-tail demand; at the risk level, impulsive consumption and debt cycles are triggered by the "free money effect", "label fixation" leading to financial dependence, and the "fragmentation paradox" and budget control failure in the multi-wallet scenario. From this, this paper suggests systematic optimization strategies, including reconfiguring payment labels, financial socialization, and wallet transparency.

5.2. Limitations and future study

The disadvantage of this study is that it has been done using secondary data and a case analysis method, without the support of first-hand empirical data. Future studies could be designed to do a

questionnaire study or behavioral experiments to quantify the effect of the various income labels on the sense of pain of paying and the purchasing inclination. Furthermore, comparative research across cultures can be increased in order to analyze the heterogeneity of the psychological account structure of Gen Z in varying financial cultures. Given the establishment of central bank digital currencies (CBDC) and Web3.0 assets, future studies can include the dynamic impact of new digital sources of income on psychological account classifications and consumption behaviors. These research avenues will help future research advance the current perspective and gain a deeper understanding of Gen Z's digital consumption habits in a growing, complex financial environment.

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