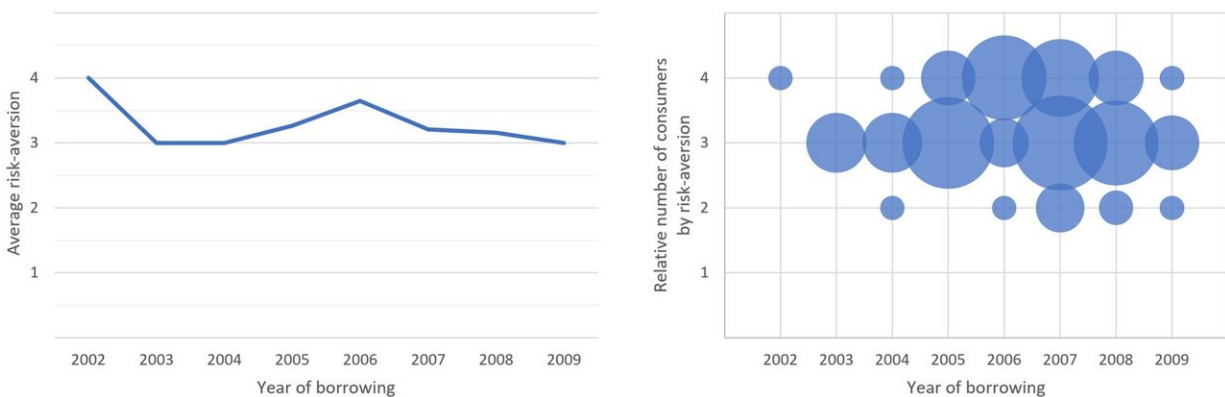


# Evolving market dynamics foster consumer inattention that can lead to risky purchases, says researchers

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Risk-aversion over time among high-risk borrowers. Credit: *Journal of Consumer Research* (2024). DOI: 10.1093/jcr/ucae018

Researchers have developed a new theory of how changing market conditions can lead large numbers of otherwise cautious consumers to buy risky products such as subprime mortgages, cryptocurrency or even cosmetic surgery procedures.

These changes can occur in categories of products that are generally low risk when they enter the market. As demand increases, more companies may enter the market and try to attract consumers with lower priced versions of the product that carry more risk.

If the negative effects of that risk are not immediately noticeable, the market can evolve to keep consumers ignorant of the risks, said Michelle Barnhart, an associate professor in Oregon State University's College of Business and a co-author of a new paper.

"It's not just the consumer's fault. It's not just the producer's fault. It's not just the regulator's fault. All these things together create this dilemma," Barnhart said. "Understanding how such a situation develops could help consumers, regulators and even producers make better decisions when they are faced with similar circumstances in the future."

The researchers' findings were [recently published](#) in the *Journal of Consumer Research*. The paper's lead author is Lena Pellandini-Simanyi of the University of Lugano in Switzerland.

Barnhart, who studies consumer culture and market systems; has researched credit and debit in the U.S. Pellandini-Simanyi, a sociologist with expertise in consumer markets, has studied [personal finance](#) in European contexts. Together they analyzed the case of the Hungarian mortgage crisis to understand how people who generally view themselves as risk averse end up pursuing a high-risk product or service.

To better understand the consumer mindset, the researchers conducted 47 interviews with Hungarian borrowers who took out low-risk mortgages in the local forint currency or in higher risk [foreign currency](#) as the Hungarian mortgage industry evolved between 2001 and 2010. They also conducted a larger survey of mortgage borrowers, interviewed 37 finance and mortgage industry experts and financial regulators and analyzed regulatory documents and parliamentary proceedings.

They found patterns that led to mortgages becoming riskier over time and social and marketplace changes that lead consumers to enter into a state of collective ignorance of increasing risks. In addition, they

identified characteristics that encouraged these patterns. Other markets with these characteristics are likely to develop in a similar way.

"Typically, when there is a new product on the market, people are quite skeptical. The early adopters carefully examine this product, they become highly educated about it and do a lot of work to determine if the risk is too high," Pellandini-Sumanyi said. "If they deem the risk too high, they don't buy it."

But if those [early adopters](#) use the new product or service successfully, the next round of consumers is likely to assume the product will work for them in a similar fashion without examining it in as much detail, even if the quality of the product has been reduced, the researchers noted.

"Then everything starts to spiral, with quality dropping in the rush to meet [consumer demand](#) and maintain profits, and consumers relying more and more on social information that suggests this is a safe purchase without investigating how the risks might have changed," Barnhart said.

"It also can lead to a 'prudence paradox,' where the most risk averse people wait to enter the market until the end stages and end up buying super risky products. They exercise caution by waiting but they wait so long, they end up with the worst products."

The spiral is typically only broken through intervention, either through market collapse or regulation. For example, while cosmetic surgery is relatively safe, an increase in availability of inexpensive procedures at facilities that lacked sufficient equipment and expertise led to a rise in botched procedures until regulation caught up.

"These findings demonstrate the power of [social information](#)," Barnhart said. "In this environment, it's very difficult for any individual consumer

to pay attention to and assess risk because doing so is so far outside of the norm."

To protect themselves against collective ignorance, consumers should ensure that they are weighing their personal risk against others whose experiences are actually similar, Pellandini-Sumanyi said.

"Make sure this is an apples-to-apples comparison of products and the consumers' circumstances," she said.

**More information:** Léna Pellandini-Simányi et al, The Market Dynamics of Collective Ignorance and Spiraling Risk, *Journal of Consumer Research* (2024). [DOI: 10.1093/jcr/ucae018](https://doi.org/10.1093/jcr/ucae018)

Provided by Oregon State University

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