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Original Article

Mental Accounting and Heuristic Behavior of Accounting Students in Balancing Expenditures for Cigarettes and Savings

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Abstract: *This research aims to analyze the mental accounting and heuristic behavior of accounting students in balancing spending on cigarettes and saving. Mental accounting refers to the way individuals categorize and treat their money differently based on certain mental categories, while heuristics are rules of thumb or experience-based approaches used to make quick decisions. This study used a qualitative approach with an interview method with 5 accounting students at the Tanjungpura University accounting study program who were active smokers. The research results show that mental accounting and heuristics are able to influence students' financial decisions in balancing spending on cigarettes and allocating savings according to the pocket money they have.*

Keywords: *Mental Accounting, Heuristic, Expenditure, Cigarettes, Saving.*

I. INTRODUCTION

In the world of finance, individual behavior is often influenced by mental accounting concepts and heuristics, which can lead to decisions that are not completely rational. Mental accounting is the way individuals categorize and manage their money in different mental 'accounts', while heuristics are experience-based approaches or rules of thumb used to make quick decisions. Accounting students, as a group that studies and interacts with finance intensively, face special challenges in managing expenses, especially in balancing spending on cigarettes and saving. Spending on cigarettes is often considered a daily necessity or entertainment, which can interfere with the allocation of funds for savings. By understanding how mental accounting and heuristics influence students' financial behavior, we can develop more effective strategies to help them manage their personal finances more wisely and achieve a balance between consumer spending and long-term financial goals.

Mental accounting is one of the main concepts in behavioral economics introduced by Richard Thaler. This concept explains how individuals separate their money into various mental 'accounts' based on specific categories, such as daily necessities, entertainment, and savings. In this context, accounting students tend to allocate spending on cigarettes in the category of entertainment or daily necessities, while money for savings is placed in a more separate category and is considered inviolable. This categorization often leads to less flexible behavior in managing their finances, even though rationally, it may be better to balance these expenses.

Apart from mental accounting, heuristics also play an important role in financial decision-making. Heuristics are approaches or rules of thumb used to make quick decisions and are often based on memorable experiences or perceptions. In managing personal finances, accounting students often use heuristics to decide how much to spend on cigarettes and how much to save. For example, if they see many peers smoking and consider it a common behavior, they may be more inclined to allocate funds to cigarettes.

Heuristics commonly used in financial decision-making include the representation heuristic, anchoring heuristic, and availability heuristic. Representation heuristics refer to the tendency to make decisions based on relevant experiences or examples. For example, if accounting students see that most of their friends smoke, they may assume that smoking is a common and normal behavior. The anchoring heuristic refers to the tendency to make decisions based on initial reference points, such as previous monthly budgets or earned income. Meanwhile, the availability heuristic refers to the tendency to make decisions based on information or examples that are easy to remember.

In balancing spending on cigarettes and saving, accounting students are often faced with a dilemma between short-term needs and long-term goals. Cigarettes, as a form of daily consumption, can provide instant gratification but also incur significant costs. On the other hand, saving is a wiser form of financial management and can help you achieve long-term financial goals such as buying a house or continuing your education. However, the tendency to prioritize instant gratification often hinders the ability to save.

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This research aims to analyze how mental accounting and heuristics influence accounting students' financial decisions in the context of spending on cigarettes and saving. By understanding how these two concepts play a role in decision-making, it is hoped that more effective strategies can be found to help students manage their finances better. One approach that can be used is through more in-depth financial education, which can help students understand the importance of financial management and how to manage expenses more wisely.

Apart from that, using a clear and detailed budget can also help students balance spending on cigarettes and saving. This budget should include a specific allocation for savings before other expenses so students can ensure that they have sufficient funds to achieve their long-term financial goals. Thus, they can more easily manage their expenses and avoid unnecessary expenses.

Self-control techniques can also be an effective tool in helping students manage their spending. For example, setting short-term and long-term savings goals, as well as tracking progress, can help students stay motivated to save rather than spend money on cigarettes. This technique can help them develop better financial habits and achieve a better balance between consumer spending and savings.

In conclusion, it is hoped that this research can provide deeper insight into how mental accounting and heuristics influence the financial behavior of accounting students. By understanding how these two concepts play a role in decision-making, it is hoped that more effective strategies can be found to help students manage their finances more wisely and achieve a balance between spending on cigarettes and saving. This research can also make important contributions to the literature on behavioral economics and personal financial management, as well as provide practical recommendations for accounting students and higher education institutions.

II. LITERATURE REVIEW

Research on individual financial behavior often involves mental accounting and heuristic concepts. Mental accounting, introduced by Richard Thaler, refers to the way individuals categorize and manage their money in different mental accounts, even though economically, there is no real difference between the sources and uses of that money (Thaler, 1999). For example, individuals may allocate their money into categories such as groceries, entertainment, and savings and feel reluctant to move money from one category to another even though doing so may be more financially efficient.

Heuristics are rule-of-thumb-based approaches used by individuals to make quick decisions and are often based on memorable experiences or perceptions. Amos Tversky and Daniel Kahneman were the two main researchers who developed this concept in the context of decision making under uncertainty (Kahneman & Tversky, 1974). Heuristics such as representation, anchoring, and availability influence how individuals assess situations and make financial decisions. For example, representational heuristics refers to the tendency to make decisions based on similarities between the current situation and previous experiences.

Research on mental accounting has shown that individuals are often irrational in their money management. For example, a study by Shefrin and Thaler (1988) shows that individuals tend to have separate mental accounts for daily spending and savings and are reluctant to shift money from one account to another, even if doing so is more profitable. This is relevant in the context of accounting students who may allocate money to cigarettes in the entertainment category, thereby reducing their ability to save.

The anchoring heuristic, in which individuals make decisions based on an initial reference point, is also influential in personal financial management. Research shows that individuals often get caught up in the numbers or initial information they receive, which significantly influences their decisions (Tversky & Kahneman, 1974). In the context of accounting students, reference points such as previous monthly budgets or past spending on cigarettes can influence how they allocate funds in the future.

The availability heuristic, which refers to the tendency to make decisions based on easily remembered information or examples, also plays an important role in financial management. Kahneman and Tversky (1973) showed that individuals tend to remember and consider information that is easiest to remember or that appears most often in their minds. In this case, anti-smoking campaigns that students often see can influence their decision to reduce spending on cigarettes and increase savings.

Research on college students' financial management shows that they often face challenges in balancing short-term needs and long-term goals. For example, a study by Lusardi, Mitchell, and Curto (2010) found that a lack of financial literacy was one of the main factors that caused students to have difficulty managing their finances. Mental accounting and heuristics can exacerbate this problem by making students tend to allocate funds inefficiently.

Financial education has been identified as one way to address this problem. Research by Mandell and Klein (2009) shows that financial education can increase financial literacy and help individuals make better financial decisions. In the context of accounting students, more in-depth financial education can help them understand the importance of financial management and how to manage expenses more wisely.

Self-control techniques can also be an effective tool in helping students manage their spending. Ariely and Wertenbroch (2002) show that individuals who use self-control techniques such as setting short-term and long-term goals are more likely to achieve their financial goals. In this context, accounting students can set clear savings goals and track their progress to stay motivated in managing spending on cigarettes and saving.

Research also shows that using a budget can help individuals manage their finances better. According to a study by Heath and Soll (1996), individuals who use a budget tend to be more conscious of their spending and are better able to balance spending and saving. In the context of accounting students, using a clear and detailed budget can help them allocate funds more effectively and achieve a better balance between spending on cigarettes and saving.

Overall, the literature shows that mental accounting and heuristics have a significant influence on individual financial management, including accounting students. By understanding how these two concepts influence financial behavior, more effective strategies can be developed to help college students better manage their expenses and achieve their long-term financial goals. It is hoped that this research will make an important contribution to the literature on behavioral economics and personal financial management, as well as provide practical recommendations for accounting students and higher education institutions.

III. RESEARCH METHODS

A) Types of research

The method used in this research is a qualitative descriptive method. This research is descriptive research conducted through data collection in the field. Descriptive research is a type of research that describes what respondents do and then processes it into data. The data is then analyzed to obtain a conclusion. Descriptive research is used to describe how each research variable works. So data analysis in this research was carried out during data collection. Activities in analyzing qualitative data are data reduction, data presentation, and drawing conclusions.

B) Research Objects and Locations

The data source used in this research is primary data. The data source for this research is 12th and 14th semester students in the Accounting Department, Faculty of Economics and Business, Pontianak, Tanjungpura University.

C) Data Analysis Technique

Research data collection is a systematic process to obtain the required data. The data collection technique used is by asking questions related to the research approach, and from this approach the questions are designed to obtain and research the required information.

IV. RESULTS AND DISCUSSION

The five accounting study program students who were informants in this research received pocket money from their parents, and some also came from part-time jobs. Some pocket money given by parents is given daily, weekly or monthly. Meanwhile, income from part-time work is received monthly. Five students interviewed said that their biggest expense was cigarettes. They are all active smokers. With the price of cigarettes increasing, their spending automatically also increases. The five informants admitted that it was not easy to divide expenses for cigarettes and other needs, including savings. They try to save even though the amount is uncertain.

Mental accounting and heuristics are two main concepts in behavioral economics that explain how individuals manage and make decisions regarding their finances. In the context of accounting students, mental accounting can cause them to categorize money differently for different needs, such as spending on cigarettes and saving. For example, college students may have separate mental "accounts" for money to spend on cigarettes and money to save. This often leads to suboptimal financial decisions due to the rigid separation between these categories.

Research shows that mental accounting can cause students to feel more comfortable spending money on cigarettes if the money has been allocated to an "account" for entertainment or daily needs. They may feel reluctant to move money from a savings account to a spending account for cigarettes even though it may be more beneficial overall to spend less on cigarettes and increase the amount saved. This rigid categorization often hinders flexibility in personal financial management.

In addition, the heuristics used by accounting students in making financial decisions also play an important role. Individuals often use heuristics such as representation, anchoring, and availability to make quick and efficient decisions. In the context of spending on cigarettes and saving, the representation heuristic may cause students to allocate funds to cigarettes if they see many peers smoking and consider it a common behavior.

The anchoring heuristic also influences how students manage their expenses. For example, if students are used to spending a certain amount of money every month on cigarettes, this figure will become a reference point (anchor) that influences their future decisions. They may continue to allocate the same amount of money to cigarettes despite their desire to save more. This shows how anchoring can lead to a lack of flexibility in financial management.

The availability heuristic is also relevant in this context. Information that is easy to remember or often comes to mind can influence students' financial decisions. For example, if an anti-smoking campaign is prominent on campus, students may more easily remember the health risks and high costs of smoking. This can influence them to reduce spending on cigarettes and increase savings. However, if information about the benefits of saving is not as clear or as abundant as information about smoking, students may be less motivated to save.

This combination of mental accounting and heuristics shows that accounting students' financial management is not always rational. Even though they are knowledgeable about finances, their decisions are often influenced by psychological and social factors. Mental accounting and heuristics can lead to sub-optimal fund allocation, where too much money is spent on cigarettes while savings are less than desired.

To overcome this problem, more in-depth financial education can help students understand the impact of mental accounting and heuristics on their financial decisions. Financial education can provide the knowledge and tools necessary to manage finances more wisely. In addition, using a clear and detailed budget can help students balance spending on cigarettes and saving. This budget should include a specific allocation for savings before other expenses so students can ensure that they have sufficient funds to achieve their long-term financial goals.

Self-control techniques can also be an effective tool in helping students manage their spending. For example, setting short-term and long-term savings goals, as well as tracking progress, can help students stay motivated to save rather than spend money on cigarettes. This technique can help them develop better financial habits and achieve a better balance between consumer spending and savings.

Apart from that, the existence of social and environmental support that supports saving behavior is also important. Peers and family can play an important role in motivating students to manage their finances better. Campaigns or programs on campus that promote healthy lifestyles and wise financial management can also have a positive influence.

Further research is needed to understand more deeply how mental accounting and heuristics influence accounting students' financial decisions. Qualitative and quantitative studies can provide deeper insight into the factors that influence their financial behavior. Additionally, field experiments involving interventions such as financial education or self-control programs can help evaluate the effectiveness of different strategies in helping college students manage their finances.

Overall, this research shows that mental accounting and heuristics have a significant influence on accounting students' financial management. By understanding how these two concepts play into decision-making, more effective strategies can be developed to help students better manage their expenses. This research also makes important contributions to the behavioral economics and personal financial management literature, as well as provides practical recommendations for accounting students and higher education institutions.

Implementation of the results of this research could include the development of a more comprehensive financial education curriculum at universities, as well as supporting programs designed to help students manage their finances. For example, workshops on personal financial management, financial consulting sessions, and providing resources such as budget management apps can help students develop the skills necessary to manage their money wisely.

Thus, this research not only provides a better understanding of how mental accounting and heuristics influence accounting students' financial behavior but also provides a basis for practical interventions that can improve students' financial well-being. Efforts to increase financial literacy and support wise financial management among college students can have a positive long-term impact on individuals and society as a whole.

V. CONCLUSION

This research shows that mental accounting and heuristics have a significant influence on accounting students' financial decisions, especially in balancing spending on cigarettes and saving. Mental accounting makes students tend to categorize their money in different 'accounts', which can hinder flexibility in financial management and lead to sub-optimal fund allocation. Meanwhile, heuristics such as representation, anchoring, and availability influence financial decisions in ways that are often irrational, based on experience or easily remembered information.

These findings underscore the importance of deeper financial education and effective self-control techniques to help students manage their finances more wisely. With a better understanding of how mental accounting and heuristics influence financial behavior, students can learn to make more rational and efficient decisions when it comes to spending and saving. Implementation of a clear and detailed budget, as well as support from the social environment and campus programs, can help achieve a better balance between consumer spending and savings.

Overall, this research makes important contributions to the behavioral economics and personal financial management literature, as well as provides practical recommendations for accounting students and higher education institutions. Through appropriate interventions, students can be equipped with the skills and knowledge necessary to manage their finances better, which will ultimately improve their financial well-being in the long term.

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