

Mental Accounting

Economics

Treating money differently depending on where it came from.

How the accounts show up.

Behaviours

Windfalls spent more freely than salary

Separate budgets that do not offset

Holding savings while carrying costlier debt

Sunk cost effects within an account

Treating credit differently from cash

Uses

Envelope budgeting exploits it deliberately

Separate accounts aid goal saving

Framing a rebate as a bonus changes spending

Mental accounting is not simply an error. Used deliberately, it is one of the more effective personal budgeting tools.