



Regret, disappointment and the endowment effect

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ABSTRACT

The endowment effect is the finding that minimum selling prices for a particular good exceed maximum buying prices. We build on and extend previous research showing that emotions influence the endowment effect, and reveal that the two negatively valenced decision-related emotions, regret and disappointment, have distinct effects on the valuation of an object. We found that an induction of regret eliminates the classic endowment effect, whereas an induction of disappointment reverses it. The findings demonstrate the necessity of a specific emotion approach to understand the effects on decision making.

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1. Introduction

The mere possession of a commodity may influence its perceived value. This is apparent in many daily life situations and also in experimental research. Generally, people tend to hold onto what they have got. As a result, they are inclined to demand more money as compensation for relinquishing a specific object than they are willing to pay so as to obtain the same object. This phenomenon has been labeled “the endowment effect” (Kahneman, Knetsch, & Thaler, 1990; Thaler, 1980). It derives from the concept of loss aversion (Kahneman & Tversky, 1979), according to which losses are weighted more heavily than gains of equal magnitude. Giving up (or selling) an object is perceived as a loss whereas obtaining (or buying) an object is perceived as a gain. Moreover, owning an item creates an association between the item and the self (Beggan, 1992; Morewedge, Shu, Gilbert, & Wilson, 2009), increasing its value for the owner. This effect has been highlighted in economic and psychological literature and is empirically confirmed for a variety of objects (see e.g., Carmon & Ariely, 2000; Carmon, Wertenbroch, & Zeelenberg 2003; Kahneman et al., 1990; Loewenstein & Adler, 1995; Reb & Connolly, 2007; Strahilevitz &

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Loewenstein, 1998; Tom, Lopez, & Demir, 2006; Van de Ven, Zeelenberg, & Van Dijk, 2005; Van Dijk & Van Knippenberg, 1998; Van Dijk & Van Knippenberg, 2005).

Interestingly, as became evident in recent years, the endowment effect may be moderated by the emotional state the decision maker is in when deciding upon the selling or buying price, even if this emotional state is not related to the decision at hand. For example, Lin, Chuang, Kao, and Kung (2006) had participants experience either positive or negative emotions – via recalling unrelated past emotional events and also via unrelated audiovisual stimuli. Next, participants were asked to evaluate how much they would be willing to accept in return for a mug they were endowed with, or how much they would be willing to pay for a mug that was not part of their endowment. In two experiments, Lin et al. found that the endowment effect occurred when positive emotions were induced prior to the valuation, but not when negative emotions were induced.

In a similar experiment, Lerner, Small, and Loewenstein (2004) found differential effects for two different negative emotions, disgust and sadness. They had participants, in an unrelated task, watch film clips that elicited one of those emotions. Next, participants were asked for their selling or choice (buying) prices of a set of highlighters. Choice prices slightly differ from buying prices, as the former type involves choosing between an object or money, whereas the latter type involves obtaining an object by giving up money (see Kahneman et al., 1990). Disgust evokes a tendency to expel current possessions and avoid obtaining new ones (Rozin, Haidt, & McCauley, 1993). Consistent with this, Lerner et al. found that both selling and buying prices were reduced. The reduction of selling prices was prominent due to the increased proximity of the object (in the selling condition) – eliminating the endowment effect completely. On the contrary, sadness is associated with loss and helplessness and evokes a tendency to change one's circumstances (Keltner, Ellsworth, & Edwards, 1993). Getting rid of current possessions (i.e., selling) and acquiring new goods (i.e., buying) both represent clear opportunities for changing one's circumstances. Indeed, Lerner et al. found that sadness reduced selling prices and increased buying prices at the same time – reversing the endowment effect.

Thus, the studies described above both show that negative emotional states that are experienced while expressing the buying or selling prices may attenuate the endowment effect, or even reverse it. In the current article, we extend these findings to other negative emotions that are highly relevant in the context of decision making.

We are interested in the behavioral differences that are associated with regret and disappointment with regard to the endowment effect. Both emotions qualify as prototypical decision-related emotions (Zeelenberg, Nelissen, Breugelmans, & Pieters, 2008). Moreover, they are also highly prevalent. Regret is the second most named emotion, after love (Shimanoff, 1984) and disappointment is the third most experienced emotion, after anxiety and anger (Schimmack & Diener, 1997). Previous research has found that regret and disappointment are clearly different emotions, with distinguishable consequences for decision-making (see for reviews, Martinez, Zeelenberg, & Rijsman, 2008; Zeelenberg, Van Dijk, Manstead, & Van der Pligt, 2000). Additionally, regret and disappointment are found to differ in their appraisals (Van Dijk & Zeelenberg, 2002). The former emotion is appraised as thinking that one could undo the event and as caused by oneself, whereas the latter emotion is more appraised as unexpected, as wanting something pleasurable, as thinking that one was morally right, and as caused by circumstances beyond anyone's control. Recent neuropsychological research and neuroimaging data have stressed both the importance of anticipated regret as a powerful predictor of future decisions (Coricelli et al., 2005), as well as the existence of learning based on cumulative emotional experiences (Coricelli, Dolan, & Sirigu, 2007).

We suggest here that regret and disappointment may have distinct implications for the valuation of objects – and, consequently, may differentially impact the endowment effect. This expectation is first of all based on the finding that regret and disappointment have differential effects on individual decision behavior (Zeelenberg et al., 2000), on consumer behavior in response to dissatisfactory service deliveries (Zeelenberg & Pieters, 2004), and on behavioral decisions in social dilemmas and ultimatum games (Martinez, Zeelenberg, & Rijsman, 2011). Below we elaborate on this and formulate more specific expectations concerning the effect of each emotion. Please note that these predictions are to some extent exploratory, but the setup of our study allows for specific tests of these predictions. This is the case because we include a control condition in which we induce no emotions. We can then compare the effects of inducing regret and disappointment not only to each other, but also to a neutral control condition. Such a neutral control was not present in the Lin et al. (2006) and the Lerner et al. (2004) research.

Before tuning to our expectations and the studies testing them, we would like to draw attention to the fact that in our research, as in the research that inspired us to run these studies (Lerner et al., 2004; Lin et al., 2006), the emotional states that were induced were unrelated to the goods sold or bought. In addition, the emotions had nothing to do with the interaction partner, neither with the experimenter. Put differently, the emotions were incidental or exogenous to the WTP/WTA decision (cf. Zeelenberg et al., 2008). From a rational standpoint, these emotions should have no impact, because they are unrelated to the value of the good. We argue here that effects of such exogenous emotions can best be interpreted as an over-generalization of the tendencies that are naturally associated with the emotional experience. Because each emotion has a specific phenomenology and specific behavioral tendencies associated with it, we expect differential effects for regret and disappointment. Below we provide the reasoning for the specific effects that we expect. If we were to find support for our predictions, the effects cannot be explained by negative mood, because both regret and disappointment will induce negative mood (an elaborate discussion of how emotions are related to decision making can be found in Zeelenberg et al., 2008). Let us now turn to the specific expectations for regret and disappointment.

We expect regret to reduce or eliminate the endowment effect. This will occur because regret triggers “reparative” actions as people feel responsible for the situation that elicited the emotion (Zeelenberg et al., 2000). Regret is related to an outward focus and a preoccupation with other people, such that it operates as an appeasement emotion (Van Kleef, De Dreu, & Man-

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