



Euro illusion or the reverse? Effects of currency and income on evaluations of prices of consumer products

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Abstract

Previous research has demonstrated a “euro illusion” in that product prices are evaluated to be more expensive in a small-unit currency (high nominal value) than in a large-unit currency (low nominal value). With the aim of demonstrating a reverse euro illusion when the income is obtained in the same currency, in Experiment 1 different groups of undergraduates with or without knowledge of a disposable income evaluated prices of consumer products expressed in high or low nominal values. Since only a weak effect was observed, in Experiment 2 a budget constraint was added to the disposable income to increase its salience. However, a clear effect was only obtained in Experiment 3 when participants, with knowledge of a disposable income, rated whether they would afford to purchase the consumer products. In this experiment the euro illusion prevailed for low-priced products but tended to be reversed for high-priced products.

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1. Introduction

Several countries in the European Union (EU) have made the transition from their former national currencies to the Euro, thus introducing a unitary currency in these countries. Considering that new countries have recently joined the EU, numerous consumers will experience a similar transition in the future. The long-term effects of the transition are believed to be positive by a majority of citizens (e.g., Meier & Kirchler, 1998; Müller-Peters et al., 1998); however, attitudes and expectations differed with education, age, and national identity (Meier & Kirchler, 1998; Meier-Pesti & Kirchler, 2003). For example, because a unitary currency may facilitate the comparison of prices across borders, a drop in prices is expected in those countries where they now are higher (Mussweiler & Strack, 2004). Yet, the transition period may be difficult.

Investigating price estimates of a large set of frequently and rarely bought consumer products before and after the introduction of the euro in two different countries (Austria and Portugal), Marques and Dehaene (2004) showed that even for frequently purchased consumer products relearning prices was remarkably slow. However, as pointed out by Vissol, Layani, and Ramón (1999), some segments of the population experience more difficulties than others. For instance, comparing different age groups with respect to how well they estimated prices of different groceries before and after the transition to the euro, a field study in Finland (Aalto-Setälä & Rajjas, 2003) found that although there was a difference in price estimates between the groups before the transition, it was even larger after the transition with older respondents (above 50 years old) doing less well. A longitudinal study of the adaptation to the currency change in Ireland (Ranyard, Burgoyne, Saldanha, & Routh, 2005) revealed that many believed that they had adapted to the euro; however, there were individual differences in how well the new currency was handled. For instance, a year after the introduction some were not able to think in euros, that is, they still converted prices to their old currency and were furthermore confused about the values of the coins and notes. There may also be differences between countries in the adaptation to the euro. Thus, Marques and Dehaene (2004) found that in Austria participants made more accurate price estimates than did participants in Portugal. In a study by Mussweiler and Englich (2003), German participants were as accurate in estimating prices in euros after the introduction as they had been in estimating prices in DM before the introduction. However, as there was only one item to be estimated in this study, the price of a middle-sized car, the external validity of the results was limited.

Additional recent research on price perception and learning has identified some factors that contribute to the problems consumers face. Juliusson, Gamble, and Gärling (2005) found that price variation is an important determinant of consumers' slow learning of prices in the new currency. Another difficulty is the "euro illusion" referring to the tendency to evaluate prices on the basis of their nominal representation (i.e., the numbers printed on coins and notes) rather than on their real value (Burgoyne, Routh, & Ellis, 1999; Gamble, Gärling, Charlton, & Ranyard, 2002; Jonas, Greitemeyer, Frey, & Schultz-Hardt, 2002). The nominal value depends on the monetary unit of one currency relative to another currency or the exchange rate. For instance, the euro has a lower nominal value than most old currencies in Europe. The euro illusion refers to that consumers systematically overestimate prices expressed in a currency with a high nominal value and systematically underestimate prices in a currency with a low nominal value. It is essentially the same phenomenon

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