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Is a good deal always fair? Examining the concepts of transaction value and price fairness

Lan Xia [a,*], Kent B. Monroe [b,c,1]

[a] Bentley University, 175 Forest Street, Waltham, MA 02452, USA
[b] University of Illinois at Urbana-Champaign, USA
[c] Robins School of Business, University of Richmond, 4905 Old Millrace Place, Glen Allen, VA 23059-3415, USA

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ABSTRACT

Previous research has shown that if consumers are aware that they are paying more than another customer for a similar transaction, then they may perceive the price to be unfair. A concept closely related to fairness is transaction value, defined as consumers' perceptions of the psychological satisfaction or pleasure from taking advantage of a price deal. In this research, we conceptualize that although consumers' perceptions of price fairness and transaction value share many similarities, nevertheless there are also important differences. Using three studies, we empirically examine these differences. We show that although a "bad deal" is typically perceived to be an unfair price, a "good deal" is not necessarily perceived to be the fairest price.

1. Introduction

Facilitated by the Internet and related price management technologies, the practice of varying prices across different customers and/or over different times for the same product (i.e., dynamic pricing) has become more prevalent. Research has shown that perceived price differences, specifically due to price increases, may induce unfairness perceptions and reduce purchase intentions, preventing sellers from maximizing profits (Kahneman, Knetsch, & Thaler, 1986). A concept that is closely related to price fairness perception is perceived transaction value, which is defined as consumers' perceptions of psychological (dis)satisfaction obtained from the price paid in comparison to a (lower) higher reference price (see Grewal, Monroe, & Krishnan, 1998; Thaler, 1985).

It seems obvious that consumers may be dissatisfied when the price they are paying is more than their comparative reference price. On the other hand, paying a price less than their reference price normally would be attractive to consumers and could induce a positive response from them. For example, suppose you bought a camera for $150 and learned that another

* Corresponding author. Tel.: +1 781 891 2468; fax: +1 781 788 6456.
E-mail addresses: lxia@bentley.edu (L. Xia), kentmonroe@comcast.net (K.B. Monroe).
[1] Tel.: +1 804 269 5519; fax: +1 804 269 7614.

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customer purchased the same camera from the same seller on the same day for $190. You are probably happy that you paid a lower price (i.e., experienced positive transaction value). However, do you also think it is fair that the other customer paid a higher price than you?

The key question we are asking in this research is whether an apparent good deal (i.e., paying less than others) would always be perceived as fair. If so, then the next question is when would price advantaged consumers perceive a ‘‘good deal’’ to be an unfair or a less fair price? These are the questions we examine in this research.

Most price fairness research has focused on the situation when consumers are price disadvantaged (that is, the price they pay is higher than their reference price). Aside from price promotion research considering the sales effects of prices less than a reference price, little research has examined the effects when consumers learn that they are paying less than another customer. By examining the effects of advantaged price inequity, we further extend our knowledge of the effects of price fairness perceptions. More importantly, by comparing and contrasting the concepts of price fairness and transaction value, we offer additional insights into the psychological processes underlying consumers' evaluations of a price outcome. In the following, we start with a discussion of the price fairness concept. Then we compare and contrast the concepts of fairness and transaction value. Finally, we identify boundary conditions for the different effects of advantaged price inequity on perceptions of fairness and transaction value.

2. Conceptualization

2.1. Price fairness perceptions

Following Xia, Monroe, and Cox (2004) we define perceived price fairness as a consumer's assessment of whether the difference (or lack of a difference) between a seller's price and the price of a comparative other party in a transaction is equitable, reasonable or justifiable. Since price evaluations are based on comparative judgments (Monroe, 2003), price fairness perceptions are evoked by price comparisons. From the perspective of the evaluating consumer, comparisons of two prices for a similar product lead to one of three outcomes: (1) the prices are equal (price equity), (2) the consumer's price is less than the reference price (advantaged price inequity), or (3) the consumer's price is more than the reference price (disadvantaged price inequity). The concept of equity can be considered along a continuum ranging from disadvantaged inequity, to equity, and then to advantaged inequity (Oliver, Shor, & Todd, 2004).

Price equity normally will not induce fairness perceptions as this situation is the social norm, or if induced, may lead to perceptions of fairness. Theoretically, given that equity is normally the desired situation for perceptions of fairness, both advantaged and disadvantaged price inequities may lead to price unfairness perceptions (Finkel, 2001; Ord?ñez, Connolly, & Coughlan, 2000; van den Bos, Peters, Bobocel, & Ybema, 2006). However, Xia et al. (2004) indicated that for price differences of equivalent magnitude, the degree of unfairness consumers may feel between advantaged and disadvantaged price inequities of the same magnitude may differ. They used the term unfairness to refer to perceptions associated with disadvantaged price inequity and less fairness to refer to perceptions associated with advantaged price inequity.

We all prefer being advantaged rather than being disadvantaged. Thus, it is easier to judge a disadvantaged price inequity as unfair while the judgment of an advantaged price inequity could be more ambivalent because we like it and may be reluctant to label it as unfair. However, research in social psychology has documented that an individual who receives an outcome that is equitable to the outcome of a comparative other person will perceive that equity is fairer than either an advantaged outcome or a disadvantaged outcome (Adams, 1965; Austin, McGinn, & Susmilch, 1980; van den Bos et al., 2006). For example, Ord?ñez et al. (2000) found that MBA students perceived that it was less fair when they received a higher salary than their equivalent peers. Also, van den Bos et al. (2006) demonstrated that given sufficient cognitive resources, people perceived that receiving an advantaged payment higher than their equivalent peers is less fair although they are happy about it.

Similarly, in marketing transactions, a large scale shopping survey showed that 76% of the respondents agreed that ‘‘it would bother me to learn that other people pay less than I do for the same products’’. However, 72% of these respondents also *disagreed* that ‘‘if a store I shop at frequently charges me lower prices than it charges other people because it wants to keep me as a customer more than it wants to keep them, that's OK’’ (Turow, Feldman, & Meltzer, 2005). These research results indicate that there are multiple ways that an outcome can be evaluated. What consumers like may or may not be what they consider as fair. In the next section, we discuss the nature of advantaged price inequity in more detail as we compare and contrast it with a closely related concept: perceived transaction value.

2.2. Price fairness and transaction value

Outcomes or procedures that make people pleased can be different from those that are fair, equitable, or just (Messick & Sentis, 1983). In the context of price perceptions, a just and equitable outcome leads to fairness judgments and whether people are pleased with the transaction leads to perceptions of transaction value (originally labeled transaction utility by Thaler, 1985).

Evaluation of transaction value is self-centered, focusing on whether the price represents a good value to oneself. A price disadvantage relative to a reference price produces negative transaction value and a price advantage produces positive trans-