Evidence for the Endowment Effect in Older Adults

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ABSTRACT  The endowment effect refers to the phenomenon whereby sellers attribute more value to an item than do buyers. Given previous mixed evidence, we examined the endowment effect in a sample of 65 older adults from ages 60-92 years. Participants completed a survey packet with a specific desirable pen. The last page of the packet assigned the participant to either being a buyer or a seller of the pen used to fill out the entirety of the packet. Participants were asked to provide a selling or buying price for the pen (depending on condition), and to list six thoughts about the pen, which the participant themselves coded as positive, negative or neutral. Results showed that overall sellers provided higher prices than buyers, but that the groups did not differ in positive or negative thoughts about the pen.

INTRODUCTION
Whether an individual is a seller or purchaser of an item can largely impact the value placed on it. Specifically, if one owns the object and is looking to sell it, they will place a higher price on the item relative to individuals who do not own it but are looking to purchase it. This decision-making bias is the endowment effect. This phenomenon reflects overvaluing objects owned, and undervaluing objects not owned, in turn demanding more to give up an item than one would pay to obtain it (Nayakankuppam & Mishra 2005).

LOSS AVERSION AND THE ENDOWMENT EFFECT
The endowment effect is primarily explained through prospect theory (Kahneman & Tversky, 1979), a theory that explains how the value of an option is defined in terms of gains and losses. When individuals face decisions – even if the outcome probabilities are clear and obvious – they still rely on emotional preferences as reflected in the value they place on one option over another as opposed to the probabilities. Moreover, the theory suggests that individuals tend to favor risks concerning anticipated losses, and avoid risks concerning anticipated gains. For instance, if presented with a gamble to keep what one already has versus a gamble to lose what one already has, people are more influenced by the prospect of loss. Therefore, losses loom greater than gains, a phenomenon known as loss aversion.

Since the value of loss is emphasized more than the value of a gain, it is expected that the “reservation price” assigned by buyers and sellers will differ. The reservation price is defined as the lowest price a seller is willing to take for a good or service or the highest price a buyer is willing to pay for a good or service. It is anticipated that sellers will designate a higher reservation price for an item at stake than will buyers. However, although prospect theory offers a convincing explanation for the endowment effect, there may be other factors that influence the degree to which buyers and sellers differ in their reservation pricing.
AFFECT AND THE ENDOWMENT EFFECT

One factor that influences the endowment effect is emotion (Nayakankuppam & Mishra 2005). Not only does the value of the item differ for buyers and sellers, but the way in which the person evaluates the item affectively is different as well (Carmon & Ariely, 2000). Sellers tend to focus on the positive features and the sentimental meaning associated with the item, while disregarding the negative features. Buyers on the other hand tend to evaluate the item based on its negative features, using them to determine the item’s worth. So although both the buyer and seller are referring to the same item, it is not perceived similarly, and the prices assigned vary depending on the attention paid to either positive or negative features (Carmon & Ariely, 2000).

In the current project, it is expected that the seller will be more likely to place higher value on a pen than the buyer due to ownership and the tendency to avoid loss. Also, it is expected that the seller will focus more on the positive qualities, increasing the value of the pen, while the buyer will focus more on negative qualities, decreasing the value of the pen. The fundamental point of the relationship between affect and the endowment effect is that the value of the object is strongly influenced by ownership.

AGING, THE ENDOWMENT EFFECT, AND THE POSITIVITY EFFECT

Given age-related changes in emotion and cognition (Carstensen & Mikels, 2005), it is possible that older adults would show differences in the endowment effect. In particular, older adults have been found to pay more attention to emotion than younger adults (Carstensen & Mikels, 2005). In addition, the age-related positivity effect shows that older adults relative to younger adults tend to pay more attention to positive stimuli rather than negative stimuli (Carstensen & Mikels, 2005).

Based on these considerations, Peters, Hess, Västfjäll & Auman (2007) suggest that older adults should show a strong endowment effect. Indeed Johnson et al. (2006) found support for a strong endowment effect in older adults. In contrast, Kovalchik et al. (2005), found no endowment effect in older individuals. Thus, extant findings are mixed regarding whether or not older adults show an endowment effect. Importantly, though, neither study directly examined participants’ emotional evaluations of the object to be sold or purchased. The current study was designed to obtain further data that may support the existence of an endowment effect in older individuals and examine its relationship to their emotional responses.

CURRENT PROJECT

Participants in the study completed a short single page form modeled after Nayakankuppam et al. (2005), asking them to quote a reservation price, along with six thoughts about the pen they had been using. We chose this procedure because the participant is given a specific pen and is using it for approximately 30 minutes to fill out a survey packet. The expectation is that, if assigned to be a seller, the participant will have an increased sense of ownership and attachment to the pen as well as more positive thoughts about it, but if assigned a buyer, the participant will have an overall increased sense of awareness of the pen and its qualities – especially the negative ones. To measure affect, each participant generated a list of six thoughts about the pen and also coded each for valence (i.e., positive, negative or neutral).

METHOD

PARTICIPANTS

Sixty-five older adults from ages 60-92 years participated in exchange for $10 cash compensation.

MEASURES

Endowment Effect Measure: Participants were given a booklet with the following instructions for each condition: “For the following section please imagine that the pen you have been using to fill out this packet is now available for you to purchase” (buyer condition) or “For the following section please imagine that the pen you have been using to fill out this packet is now yours...
to sell” (seller condition). Participants were then asked how much they would be willing to buy or sell the pen for depending on their condition, and to list a price.

**Affect Measure:** Participants were asked to generate 6 thoughts about the pen. They then coded each thought for valence given the participants response to either selecting positive, negative or neutral next to each thought they listed for the pen.

**APPARATUS**
As the last page in a survey packet, participants first completed the endowment effect measure and then the affect measure. Research assistants were present and available for questions if necessary.

**PROCEDURE**
Participants were run in large groups at senior centers, and were allowed to leave upon completion of the packet. They completed several other questionnaires regarding health related behavior, hypothetical medical information and risk taking tendencies as well as the current measures.

**RESULTS**
In order to examine if participants demonstrated an endowment effect, we ran an independent samples t-test on reservation price, and found that the buyers place a lower value on the pen ($M=$1.43) relative to the sellers ($M=$2.02), $t(63) = 1.79$, $p < .05$ (one-tailed). Next, to examine the possible role of affect, we ran an ANOVA on the number of positive, negative, and neutral thoughts generated by participants in each group, which did not result in a significant participant group by affect category interaction, $F (2, 64) = 1.50$, $p < .2$.

**DISCUSSION**
The current study examined the endowment effect in older adults. We found support for the effect in an older adults sample. These findings are consistent with previous findings of the endowment effect in older adults (e.g., Johnson et al. 2006). However, our affect measure was unrelated to endowment condition. This could be due to our limited sample size, or underemphasizing the endowment condition to which they were assigned. It is also possible that older adults in general tend to pay more attention to positive features regardless of condition, which is consistent with the positivity effect (Carstensen & Mikels, 2005).

Future research should explore differences in the endowment effect of older adults relative to younger adults. Using both older and younger samples would allow examination of age-differences in the robustness of the endowment effect and the extent to which older adults attend more to positive features relative to their younger counterparts.

In conclusion, older adults showed an endowment effect, however the underlying mechanism for this effect remains unknown. As with the endowment effect observed in younger adults, older adults too appear to value that which they have more than that which they do not.
REFERENCES


