$PSYCHOLOGY MEETS ECONOMICS: Why Consumers Can’t Count Their Money Correctly$

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Consumers feel happier if they discover that the complimentary ticket they received was priced at $200 rather than $100. They see greater value in two 10% discounts than in a single 20% discount. And they buy a $200 appliance placed next to a $220 model but not when it is placed next to a $180 model. Economics calls these consumer behaviors “irrational.” Psychology considers them “normal.” This chapter illuminates why.

The “Irrational” Consumer Goes to Market

Barbara and Jenny, two friends, both traveled on frequent flyer miles from San Francisco to New York over Spring break. During the flight, Barbara found out that the person sitting next to her, had paid $475 for his ticket; Jenny found out that the person in the seat next to her had paid $936. Later, when they told each other about this, Barbara felt sad: “I am always unlucky. I saved only a half of what you saved”!

Vicky had always wanted a pashmina scarf. In her local store they sold for US$99. When she went to India she found the same scarves selling for 500 Rupees each (approximately US $9.99). She was delighted and bought herself a pale pink scarf. She took pleasure in knowing that she spent only $10. Her friend, Christie, on her trip to India went to an upscale store where the prices were displayed in U.S. dollar currency. There, she found the scarves selling for $19.99 and bought three of them. Back home, Vicky was kicking herself for not having bought more scarves; Christie, on the other hand, could barely contain her joy.

Geeta and Rita, two friends in college, always hung out together. When they went out shopping or clubbing, they would always buy each other coffee, beer, or lunch, in turn—ignoring small price differences between what each bought for the other. Once, they went on a vacation together to Europe. There, suddenly, they started accounting for every penny they paid for each other’s meal or drink, ensuring that in the end, they evened out. Back in the USA, they resumed their old pattern!

Barbara, Vicky, and Geeta. Three perfectly rational consumers. Just like you and me. Yet, their behavior in the above episodes is, from an economics point-of-view, totally irrational. A free plane seat is a free plane seat, period. So why should it matter (to Barbara) how much a fare paying passenger paid for it? The price of a scarf marked in rupees was, when converted in dollars before buying it, still only $9.99, so why did it not seem (to Vicky) a deal enough to buy more than one unit of the highly desired scarves. And, the fellow vacationer (Rita) is the same friend, so why should the joint consumption, and paying for it in turn, change (for Geeta) from one of mutual friendly favors to bean counting?

It is clear that economic theory fails to explain these and many other everyday behaviors of consumers. In this chapter we draw on current and classical psychological theories of consumer behavior to understand how consumers think, feel, and act in the marketplace when they are deciding whether or not to pay, and how much to pay, for a product or service. Our main point is that both the prices on products and the money that consumer have are valued subjectively. That is, $10, say, as a price or as a sum of money a consumer owns means something different depending on who the individual is, how the price is presented, how the money is owned, and the shopping context facing the consumer.

What is money? Does money in another shape, size, color, or form feel different? Is it spent differently? Saved differently? Recalled differently? Stored differently? Allocated differently to different expense categories?

What are prices? Does a price communicated using another set of words or numbers or currency feel more or less expensive? Does the sequence in which a price is seen before or after other prices, or before or after information about the product or service it is related to, affect how attractive or unattractive it appears? Does the visual placement and size of price information matter in terms of how prices are processed, integrated and recalled?

The anecdotes above suggest that the answer to all these questions is a resounding, unequivocal “Yes!” We invoke psychological rules to understand and explain how consumers feel, think, and act when they are making economic transactions. These rules draw on psychological concepts covered earlier in the book, as applied to the domain of money and prices.

**PERCEPTION**

As you understood from the chapter on perception (Chapter 3), we do not perceive an object or its price, objectively. Rather, we perceive it subjectively. Therefore, the object or price perceived depends on the context and on us, the perceiver. This subjectivity in perception utilizes many sources of bias in our perception. To explain these sources, we will utilize a number of additional consumer episodes, described in the Box titled PSYCH RULES.
Read them now, and pause for a minute to contemplate whether you would have acted differently.
Done? Okay, here we go.

REFERENCE POINTS

One of the most influential ideas in how people perceive money and prices is the idea that their values are not an absolute, but are based on a “reference point” against which they are evaluated. To illustrate this in terms of the vignettes in the box:

- A free ticket evaluated against a full price ticket of $936 will seem to be a much greater benefit to the consumer than the same ticket valued against a full price ticket of $475.
- An annual salary of $60K seems high when evaluated against a student stipend; but when evaluated against a friend’s salary of $65K, it appears to be low. This is despite the fact that in real terms (adjusting for cost of living) the lower salary in a lower-cost city will buy more.
- A sale price evaluated against a regular price will seem a better value than the sale price just on its own.
- A $5 pint of beer will appear to be more affordable when purchased from an expensive hotel than from a cheap beachside kiosk.

So, you see, change the reference points, and perceptions change!

How Reference Points are Formed

You might now ask, where do these reference points come from? Consumers acquire these reference points in many different ways. They can be based on:

- One’s past experience (as in the example of Ed assessing his salary against his student stipend, or Sandy not buying the spa treatment at a higher price).
- One’s knowledge of what others pay (as in the example of Jenny feeling that her frequent flyer purchase was a better deal).
- One’s knowledge of what other vendors or stores offer for the same price (as in the case of Allan’s being tempted to choose the less convenient flight time to get the offer with a free hotel room that he would not use).
- Consumers’ beliefs as to what is fair (as in the case of Bob and Jay feeling ripped off by the beachside kiosk charging the same price for a beer as the adjacent hotel, since they know that the kiosk’s costs of operation are much lower than the hotel’s operational costs).
- Consumer expectations of what the product would be available for eventually (as in the case of Lisa waiting for the sale to buy her mother’s gift, or the case of Jay waiting for a sale).

The useful thing to know for students of consumer psychology is that many of these reference points come from marketers. The manner in which a consumer perceives your price is determined to a large extent by how you communicate the price. See box, “How Marketers Create Reference Points.”

The interesting thing is that consumers actually view the same amount spent for the same product as a “gain” when they pay less than their reference point; and they view it as a “loss” when they pay more than their reference point.
point. No matter how natural it seems to you, economics calls this behavior “irrational.” Psychology explains why it is but natural for us to perceive and react this way!

Why Is My Loss More Than Your Gain?

Here is another interesting phenomenon. To most consumers, the joy of a five dollar “gain” is less than the felt pain of a five dollar “loss!” How come? The law of asymmetry, technically called prospect theory, explains it. Prospect Theory suggests that the perceived disutility (that is, “pain”) of a loss is greater than the perceived utility (that is, “joy”) of a gain of the same amount. Here is how it translates into everyday consumer decisions:

When a price is perceived as a gain (i.e., the price is lower than one expected to pay), consumers are more likely to think it is a better price, feel better about it, and are more likely to act toward purchasing it. On the other hand, when a price is perceived as a loss (i.e., the price is a “sticker shock,” higher than what one thought it would be), then consumers are not only less likely to act on it, but the size of the effect is even greater. To explain, if a price perceived as a “gain” of $5 will make a consumer buy ten more units of a product (say, from 25 that s/he would have bought to 35), then the same price perceived as a $5 loss will make the same consumer reduce his/her purchase quantity by more than 10 units (say, from 25 units s/he would have bought to less than 15, say 10 or 12). Said differently, consumers feel the pain associated with a price increase more sharply than they feel the joy associated with a price decrease. They react more strongly to a negative change than they do to a positive change. In other words, they punish to a greater extent than they reward a company for giving them a (painful) loss rather than giving them a (joyful) gain.

MARKETING IMPLICATIONS

Marketers can put Prospect Theory to good use. Here is how:

1. Two Smaller Gifts Are Better Than One Large Gift: That is, rather than offering a single gift, i.e., a single lump sum “gain,” offer the same amount in two or more separate rewards. The value the consumer will assign to two separate rewards, A and B, will be higher than the value they will assign to the rewards C (where C = A+B). In the example of Lisa’s gift purchase for her mother, the set of free gifts provided by many cosmetic companies, rather than a single gift that is of equivalent value, seems of greater value to Lisa, and makes her happy with her purchase. Likewise, two coupons for 10% discount each would be valued more by consumers than a single 20% discount coupon.

2. Two Sequential Discounts: Suppose that a store offers a discount of 10% and then an additional discount of 10% on the new discounted price; that would seem a better value to the consumer than a single 20% discount. Note that this point is different than the fact that a total discount split into two equal parts is better than a single discount of the same value. To understand the difference, let us do some simple math. Suppose the price of an item is $100. A 10% discount means, its discounted price is $90. Now, an additional, sequential discount of 10% on the discounted price would be $9, so the final discounted price would be $81, one dollar more than what the final price would have been with a straight 20% discount or two simultaneous 10% discounts. Yet, most consumers would feel that two 10% discounts, even when applied sequentially, offer a better value!

3. Bundling the Price: If two items are priced at $50 and $25, then it is better to bundle them and sell them at $75. Why? You see, to a consumer a price is a “loss.” And having to incur a loss twice is more painful than incurring a loss once. (This is the mirror opposite of “gaining two rewards is more pleasurable than gaining one of same total value.”) By the same logic, if a credit card company has to impose a late fee of, say, $25 and a returned check fee of $29, then it is better to bundle them into a single invoice for $54. The $54 fees can still be itemized, but knowing of them (and paying them) in a single transaction is better than knowing of them at two separate points in time.

4. Deduct Tax at Source: Prospect theory would also imply that if consumers have to pay tax on their income after receiving the income, it will hurt them more than paying tax at the time of receiving the income, i.e., receiving a net income. You now know why it is painful for restaurant waiters who receive a bulk of their income without any tax withheld at source to declare the whole amount of their income in tax filings. Luckily, sales tax is deducted at source, than knowing of them at two separate points in time.

5. Charge More Now, Rebate It Later (Silver Lining): A final implication of prospect theory is that when there is a large loss (e.g., as in the case of a high price that a consumer needs to pay) with a small gain (e.g., a discount), then separating the gain (e.g., in the form of a cash back offer or money back) would lead to greater utility than netting the gain out from the cost (as the
benefit of receiving the gain is greater than the reduction in the disutility due to a lower price). To illustrate: Suppose an item costs $100, and the seller is prepared to sell it for $80. Then, rather than giving an instant cash discount of $20, it is better to charge the full price and then let the consumer receive $20 in a cash rebate. This is because the pain of paying $100 is a little more than the pain of paying $80, but the joy of getting $20 back more than makes up for this small increase in the initial pain. Yes, for the consumer, the pain of paying $80 now is higher than the pain of paying $100 now net of the pleasure of $20 cash rebate received later.

REFERENCE POINTS AS ATTRACTION & COMPROMISE

Two applications of reference points are especially useful to marketers of multiple options in a product line. These include a store that carries an assortment, or a company that offers 3 or more product versions in the same product category but at different price points. This is how it works.

The Attraction Effect: Suppose a travel agent offers two packages to Las Vegas: Package ‘A’: air plus three nights in a four star hotel, priced at $299; Package ‘B’: air plus two nights in the same four star hotel, priced at $199. Now, suppose, the travel agent adds a third option, Option ‘C’: air plus two nights in a three star hotel, also priced at $199. What do you think would happen? Believe it or not, the sales of Option ‘B’ will receive a boost. This is because, to consumers, with Option ‘C’ as a reference, Option ‘B’ suddenly looks more attractive!

The Compromise Effect: Next, consider an option in a product line that is high quality and high priced (say, business class airfares), and a second option that is relatively lower priced and of relatively lower quality (say, economy class). If the company now introduces a third option that is priced still higher but is also of higher quality (e.g., first class seats), what do you think will happen now? The sales of the middle-priced option (e.g., business class seats) will increase! This is because, to the consumer, the business class fare now seems a good compromise option.

Unintended Reference Points: While attraction and compromise effects of reference points can be used by marketers to manage consumer perceptions of the price of their products, some other reference points created by marketers have unintended effects. Understanding these can help us avoid them.

a. Prevent Sale Price from Becoming a Reference Point A sale price works by inducing a consumer to buy because the consumer uses the regular price as a reference point. But when the item is often on promotion, the reverse happens: the consumer begins to use the sale price as a reference point, and, consequently, never buys on regular price. h Remedy: avoid frequent promotions. And offer them at irregular intervals.

b. Make Comparisons Difficult Rather than offering the regular item on sale, create a somewhat different version of the same item for sale. Make a different package—different in color, size, etc. For example, if the regular item is 50 grams of a candy bar for 50 cents, offer a 40 gram bar for 30 cents, only during the promotion period. Or bundle two bars together and offer them for, 80 cents. Or a limited time bundle with premium. The point is that the difference in the promotional version should be beyond the just noticeable difference described in Weber’s law (see Chapter 3 for a refresher).

c. Follow Weber’s law—make the difference as vivid as possible. If you are a pizzeria for example, you could offer pizzas in three non-comparable forms: single servings as a triangular slice, those in an individual pie as a circle, and those in a large party pack as squares, making it more difficult for consumers to compare the sizes and prices across the three offerings.

Extending this principle further, if you want consumers not to be able to use your competitors’ price as a reference point, then differentiate your brand sufficiently from your competitors’ brands. If differentiation in the core product itself is infeasible, at least differentiate it on superficial features such as package size and shape. Of course, follow the opposite strategy—make your brand look as similar as possible—when your price is advantageous.

MONEY ILLUSIONS

Reference points are one source of biased perception. The second source is what we will call money illusions. This takes three forms: (1) Visual appearance biases. (2) number reading biases, and (3) face value biases.

1 Visual Appearance Bias—Bigger Is Better. In our everyday life, we are exposed to money in certain shapes and sizes, and we get used to those shapes and sizes, valuing them more. And we inherently value larger numbers, larger sizes and larger shapes more. This inherent bias leads us to value money according to its form rather than its actual value. As a consequence, here is how our money illusions work.

a. Gift certificates or checks may be viewed as worth less than an equivalent amount in cash.

b. Payments by a credit card may be perceived to be less painful than the equivalent amount paid by cash. Buying food and paying five dollars on your cafeteria debit card is less painful than paying cash; what is more, it is less painful than paying even by a credit card.

c. Coins may be valued less than notes and may be more likely to be spent.

d. Amounts of a larger denomination are valued more and therefore may be less likely to be spent. That is, if you have a $50 bill, you may be less likely to buy anything than if you have, say, only a $10 bill.

e. Notes (that are representative of higher denominations) are likely to be valued more than coins, leading to consumers spending coins more readily than bills. That is why many restaurants bring back “change” in coins and small notes, as they are more likely to be left as tips.
f. Monetary forms that are more colorful and less serious are likely to be spent more readily.

g. Larger coins may be valued more than smaller coins (even when the latter are of higher value), especially by young children.

(2) NUMBER READING BIASES.
Left to right processing: Despite the fact that when we learned arithmetic as kids we were taught to add and subtract numbers from right to left, as adults we appear to process prices from left to right. This leads to the well-known effect of “99 cent pricing.” Consumers are likely to ignore the numbers on the right (typically the cents in low value purchases), and focus on the left most numeral to assess price. This implies that a price of $3.99 is perceived to be cheaper than a price of $4.00. This also suggests that when discounts are offered they should be across the whole number. For example, if a product priced at $425 is to be discounted, it will be more effective to discount it to $399 than to discount it to $400. By the same token, offering a discount of $10 is more effective than offering a discount of $9.99.

(3) FACE VALUE BIASES. Face value biases occur in that the face value of a price or currency influences us more immediately than the implicit real value. This effect is most vivid in foreign currencies.

A price of 200 units in a foreign currency feels much more than a price of, say, 120 units in our own currency, even if in monetary value the latter might be of much higher than the former. Now you know why Vicky could not bring herself to buy more than one 500 Rupees pashmina scarf; and why, once back in US, re-connected with the dollar currency, she regretted not having spent Rs.1000 or Rs.1500 buying those scarves.

Euro effects: The face value effect in currencies has grave impact for the Euro currency. In 1999, the General Council of the European Central Bank set the conversion rates for the Euro for 12 countries that went on the Euro standard: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. In all of these countries, except Ireland, the nominal prices of goods were lower in Euros than they were in the prior local currency. By the end of February, 2002, all 12 countries had discontinued the use of the local currency. Several studies have shown that consumers in these countries perceive the Euro priced goods to be cheaper than the same goods priced equivalently but in the former, familiar currencies.

Several merchants, such as duty free shops and multinational retailers, list their product prices in multiple currencies, and they are wise for it.

**PRICE As A SIGNAL**

Why is it that consumers sometimes are happy paying a higher price; and, sometimes, unenthusiastic about buying a product at a reduced price? This is because they use price as a signal, to infer other things. Here is how signaling works:

**Price as a Signal for Quality** Often consumers don’t have the expertise to judge a product’s quality. In such cases, they use the product’s price as a signal of quality. That is why they are happier buying a more expensive item. Recall that Michael was happy even though he paid a lot for his shoes. (Other attributes consumers use to infer a product’s quality are warranties, country of origin, and brand name.)

From an economics point-of-view, consumers should be less willing to pay a higher price. However, from a psychological point of view, if consumers use high prices as a signal of high quality, then, consumer should be more willing to buy a high priced product.

Conversely, consumers may use a lower price as a signal of low quality. If the promotion is steep, this too may backfire. If a product’s regular price is, say, $1, and it is promoted at 50 cents, then consumers would infer that the product must cost less than 50 cents to make. At such a low cost, it may not be worth even 50 cents. So they would then never buy the product at its regular price, and may not even buy it at deeply discounted promotional prices.

**The Emotional Side of Price**

After reading through the rest of this book, it should come as little surprise to you that price also has an emotional side. That is, consumers experience some emotions when they pay a particular price rather than another.

**a. Excitement of Sweepstakes** Consider the excitement of taking part in a sweepstake. Even though the economic value of a sweepstake may be mere pennies, the possibility, however small, that a person could win one big prize, adds feelings of excitement to the purchase. Therefore, promotions that are more exciting are better at generating sales than the regular “percentage off” or “dollar off” promotions that merely represent a reduction in the economic price that a consumer has to pay.

Another area where excitement can play a large role is that of auctions. In an auction, the excitement fuelled by winning a bid may lead consumers to over-pay (compared to the economic utility of that deal). The fact of winning leads to extra utility.

**b. Feelings of self-worth** Making an expensive purchase can make consumers freshly aware or cognizant that they can afford it and are therefore worth it. This is another reason why Michael may be happier paying a full price even if he knew that he can probably find a lower price elsewhere.

**c. Feelings of smartness** On the other hand, finding a deal and paying a lower price may help the consumer feel that he/she is smart. This is the reason why Ben was happy with his purchase of shoes at the discounted price. The different ways in which Michael and Ben relate to prices is based on their individual differences: one appears to be insecure about his self-worth and needs the purchases he makes to reassure himself; the other appears, in contrast, to be less than secure about his smarts or feels guilty about buying himself indulgences, and, consequently, uses his purchases to reassure himself that they are good value.

**d. Feelings of guilt** In the domain of self-gifts, consumers often feel guilty about rewarding themselves with hedonic...
pleasures. This is one of the reasons that they would prefer to get something as a gift from another person, rather than buying it for themselves, as in the case of Tully who loved her gift of a spa treatment when she received it as a gift. Even though the funds would come from the same joint account, she would not allow herself to buy it for herself.

**e. Feelings of Embarrassment** Frequently consumers may forego the satisfaction of positive emotions in order to avoid negative emotions, such as embarrassment, anxiety or uncertainty. Despite the fact that coupons are widely used, consumers may still feel embarrassed about using one at a checkout counter when there is a large line behind them; or at a dinner for Valentine’s day; or for a gift for a special person. This is because they don’t want to look cheap to others, and to the extent that the use of a coupon or promotion suggests that they are money-conscious, they may wish to avoid this impression by not using it.

**Memory Games with Price**

**How much did I pay for that puppy in the window?**

One of the reference points for price is the price in one’s mind already. Actually, “in memory,” we should say, since that is where all prior information is stored. Our memory often plays games when it comes to our recall of price.

One thing about memory is, as you read in Chapter 4, that there is a lot of information in it, and all of it is not equally easy to retrieve. Depending upon the situation, our memory recalls things selectively.

1. **Low levels of price recall** One of the most amazing findings was based on a field study where researchers asked consumers who had just placed an item in their shopping basket how much they had paid for it. They found that as many as half of the consumers did not recall the price of the item minutes after they had placed it into their basket, even when they had purchased it on the basis of it being on deal or having a low price. Thus, there is evidence that price does not enter into the equation in the traditional manner that economists would argue that it does. Instead, consumers encode a price in broad categories such as a “good” price, or a “low” price, or a “bargain” or a “steal” or a “rip-off.” They make their decisions on the information coded this way rather than on the actual price of the product. As a consequence then, what is needed for a promotion to induce consumer purchase is that the promotional discount be just sufficient so as to be coded as a “good deal,” and no more. Keeping this insight in mind, managers should not give away too much money in promotions, but rather should find the level worthy of the “it’s a good deal” coding.

2. **Biases in the recall of money** Recent work in consumer psychology has shown that consumers have strong biases in their recall of how much money they have. The larger the denomination of a monetary instrument, the more accurate they are, but as the number of each note or coin increases, they underestimate the amount that they are carrying.

3. **Biases in the recall of spending** Can you recall how much you spent last month on your credit card bill? Or how much you spent on your last vacation? The fact is that these are difficult tasks as they are made up of identifying individual transactions and then aggregating them. People can forget not only the fact of the transaction, but the amount of it. They are more likely to forget transactions that are infrequent, and those that happened a while ago, as compared to those that happened recently or frequently, or those that happen on a regular basis. Further, they are more likely to forget transactions that are small in value as compared to those that are large in value. Finally, they are more likely to forget transactions associated with a lower pain of paying. Given this, credit card bills may be extremely difficult to recall, as each transaction was less painful than the same transaction made in cash. This could be one of the reasons why people overspend on their credit cards, as they lose track of their expenses.

4. **Biases in the recall of prices** Finally, consumers are more likely to recall prices that stood out—these are likely to be the less expensive prices than they had searched for. Thus, prices of products on promotion may be better recalled overall than their regular prices.

To summarize, memory biases in how people recall information can also lead to departures from traditional economic theory.

**The Irrational Consumer—not That Irrational After All**

Now, let us return to the anecdotes with which we started the chapter and those in the box:

- Jenny has reason to feel happier than Barbara with her frequent flyer purchase as her reference price was $936 (the price the person sitting next to her paid), rather than the $475 that Barb must have compared her free seat to.
- Michael and Ben differ from each other in terms of their deal proneness and their need to use price as a signal for quality. While Ben does not use price as a signal of quality, Michael does. As such, Ben gets greater happiness from getting a good deal, while Michael gets it from paying full price.
- Geeta and Rita began to start accounting for their purchases while traveling as they were dealing in foreign currencies and they could not get used to thinking in those currencies in a short time. They probably wished to control their spending, knowing that they may be making errors by over- or under-spending, as they were unfamiliar with the foreign currency.
- Vicky, by the same token used the face price (which was Rs. 500) to not buy more pashmina scarves. It is possible that had their price been marked in dollars, at barely $9.99 she would have bought a lot more.
- Tom was happier than Ed because his nominal salary was higher than that of Ed’s. This is explained by the money illusion phenomenon, along with reference point effects. Whether the reference point is a point in the past (a student stipend, or past price) or another point at the same time (a friend’s salary, or a competitor’s price), it will determine whether or not a salary is evaluated as a good one.
- Sandy and Tully are both rational. Tully enjoyed her spa treatment gift because she did not have to experience the negative feeling of guilt when she got the treatment as a gift from her
husband. If she had bought it herself, her enjoyment may have been diminished because she may have felt guilty about spoiling herself. Sandy knew this.

- Bob and Jay hated paying $5 for the beer at a beachside kiosk because they knew that the kiosk owner had lower costs of operation than the hotel bar. Consequently, they may have coded the price at the kiosk as a “rip-off.”

- Allan believed the free-hotel offer to Las Vegas was a better offer for exactly the same reason. He did not wish to reward a company that was overcharging him, and would have rather gone through the inconvenience of worse flight times, as it had the benefit of punishing a company that he believed was not offering him the best deal that they could afford.

- Finally, Lisa always waited for the “free gift” sale because she had begun to expect this promotional pattern and had gotten accustomed to getting more for her money. She refused to buy the lipstick she had received for free once, as she assumed it was a cheap brand of lipstick since it had been given away for free.

**SUMMARY**

The way consumers think, act and feel in the marketplace is a function of psychological factors that go beyond our traditional understanding of economics. By accepting that consumer perceptions may be based on reference points and the effort they put into a decision, the fact that consumers use price as a signal of quality, that they use their feelings to make decision, and the fact that they do not use all the information at their disposal (either memory based, or available in their context) but use only a subset of it, which is then integrated in a manner that allows them to make a decision that is “good enough” rather than the best decision that they could make, one can get at a better understanding of why consumers react to prices the way they do. And that understanding can help marketers understand how to set and communicate prices so as to be in sync with the consumer’s ways of encoding them.

Endnotes

a These anecdotes are based on various papers referenced at the end of this chapter.


