

The Seller's Sense: Buying-Selling Perspective Affects the Sensitivity to Expected-Value Differences

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Abstract : In four studies, we examined whether seller and buyers differ not only in subjective price levels for objects (i.e., the endowment effect) but also in their relative accuracy given objects varying in expected value. If, as has been proposed, sellers stand to accrue a more substantial loss than buyers do, then their pricing decisions should be more sensitive to expected-value differences between objects. This is implied by loss aversion due to the steeper slope of prospect theory's value function for losses than for gains, as well as by loss attention account, which posits that losses increase the attention invested in a task. Both accounts suggest that losses increased sensitivity to relative values of different objects, which should result in better alignment of pricing decisions to the objective value of objects on the part of sellers. Under loss attention, this characteristic should only emerge under certain boundary conditions. In Study 1 a published dataset was reanalyzed, in which 152 participants indicated buying or selling prices for monetary lotteries with different expected values. Relative EV sensitivity was calculated for participants as the Spearman rank correlation between their pricing decisions for each of the lotteries and the lotteries' expected values. An ANOVA revealed a main effect of perspective (sellers versus buyers), $F(1,150) = 85.3$, $p < .0001$ with greater EV sensitivity for sellers. Study 2 examined the prediction (implied by loss attention) that the positive effect of losses on performance emerges particularly under conditions of time constraints. A published dataset was reanalyzed, where 84 participants were asked to provide selling and buying prices for monetary lotteries in three deliberations time conditions (5, 10, 15 seconds). As in Study 1, an ANOVA revealed greater EV sensitivity for sellers than for buyers, $F(1,82) = 9.34$, $p = .003$. Importantly, there was also an interaction of perspective by deliberation time. Post-hoc tests revealed that there were main effects of perspective both in the condition with 5s deliberation time, and in the condition with 10s deliberation time, but not in the 15s condition. Thus, sellers' EV-sensitivity advantage disappeared with extended deliberation. Study 3 replicated the design of study 1 but administered the task three times to test if the effect decays with repeated presentation. The results showed that the difference between buyers and sellers' EV sensitivity was replicated in repeated task presentations. Study 4 examined the loss attention prediction that EV-sensitivity differences can be eliminated by manipulations that reduce the differential attention investment of sellers and buyers. This was carried out by randomly mixing selling and buying trials for each participant. The results revealed no differences in EV sensitivity between selling and buying trials. The pattern of results is consistent with an attentional resource-based account of the differences between sellers and buyers. Thus, asking people to price, an object from a seller's perspective rather than the buyer's improves the relative accuracy of pricing decisions; subtle changes in the framing of one's perspective in a trading negotiation may improve price accuracy.

Keywords : decision making, endowment effect, pricing, loss aversion, loss attention

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