



Subjective Value of Money

ACR Doctoral Consortium:
Portland, Oregon, October 7th, 2004

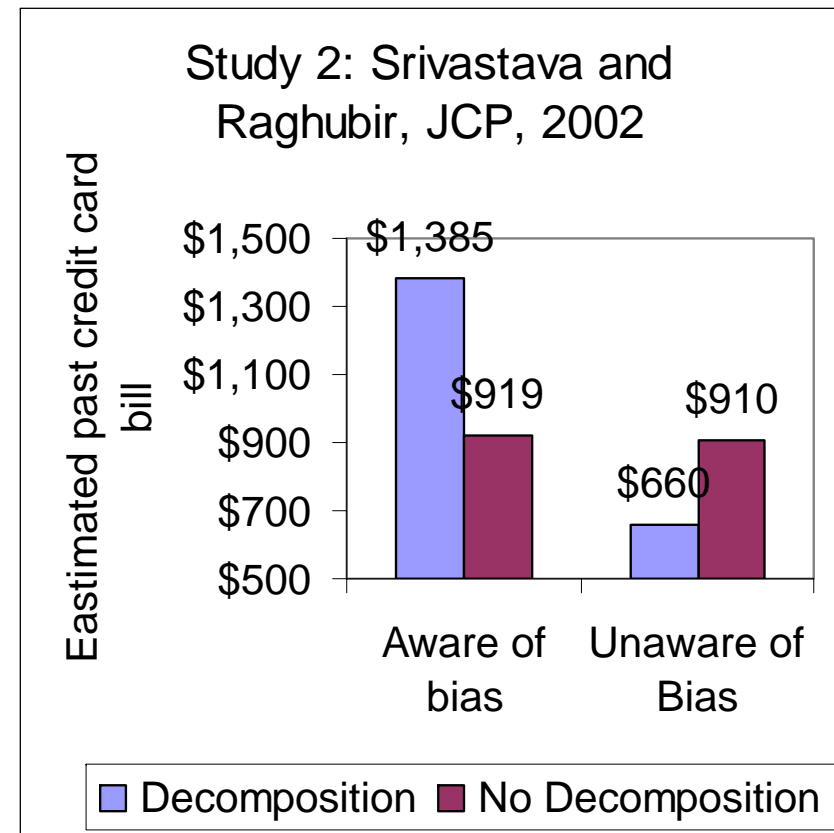
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Why is Money Subjectively Valued? A two-stage model

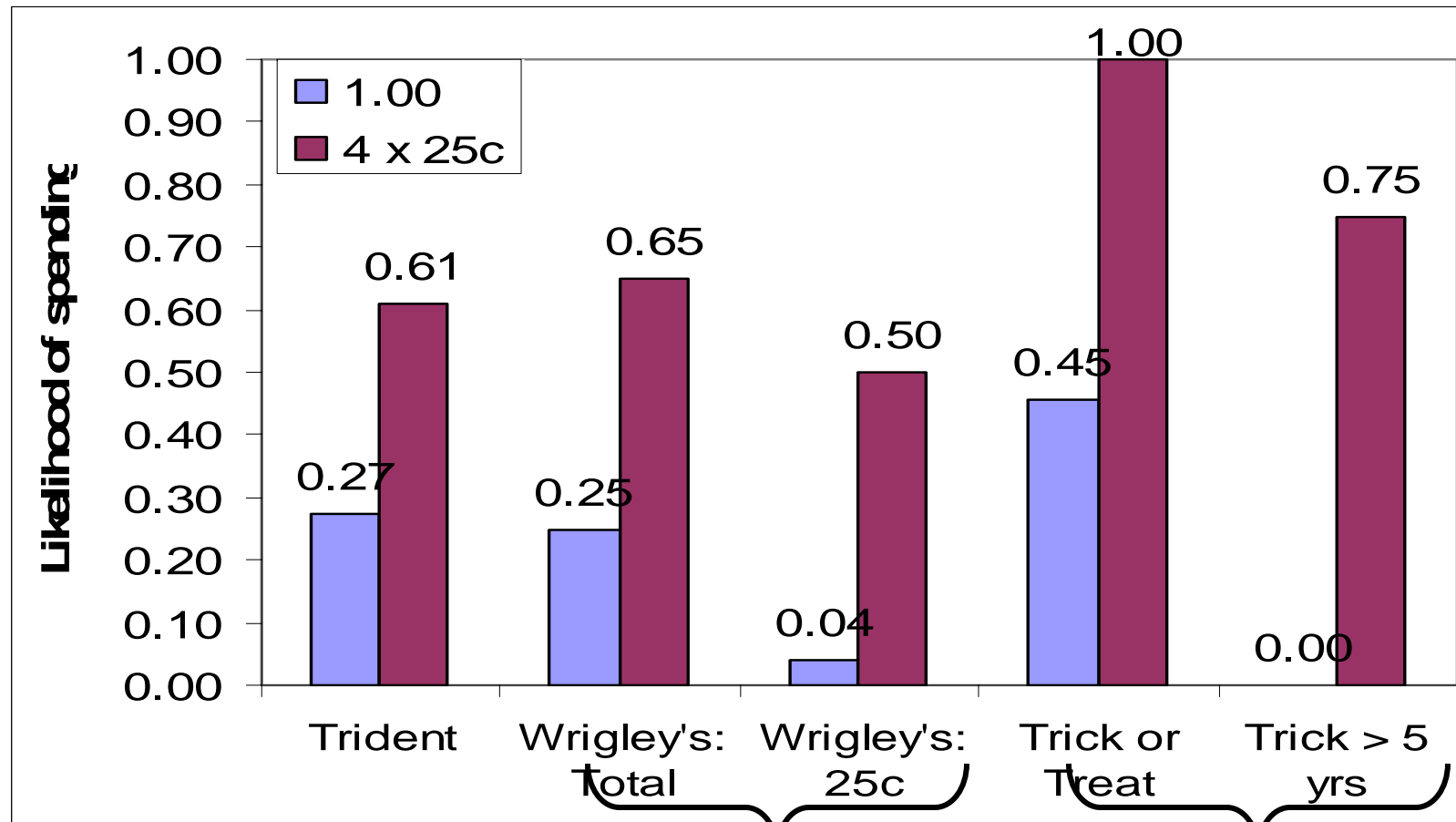
1. Consumers automatically anchor on *Nominal value*
 - a. *Absence of anchors leads to biases in recall of expenses:*
Credit card-expenses, Srivastava and Raghurir, *JCP*, 2002.
 - b. *E.g., Higher denominations of currency are valued higher:*
The Denomination Effect, Raghurir and Srivastava, 2004
2. Then inadequately (and in a controlled way) adjust
 - a. *E.g., For Foreign Currency Exchange Rates:*
The Face Value Effect, Raghurir and Srivastava, *JCR*, 2002
3. Or inappropriately adjust when they should not
 - a. *E.g., For the form of the money:*
Gift Certificates are like Monopoly Money: Raghurir and Srivastava, 2004.

1a. Absence of Anchors: Biases in Recall of Credit Card Expenses

- More recent expenses will be used to estimate future expenses
- Consumers aware of biases will estimate higher expenses
- Frequent users will estimate expenses using total vs. individual expenses
- Decomposing expenses will reduce biases



1b. Denomination inappropriately used as an Anchor: *The Denomination Effect*

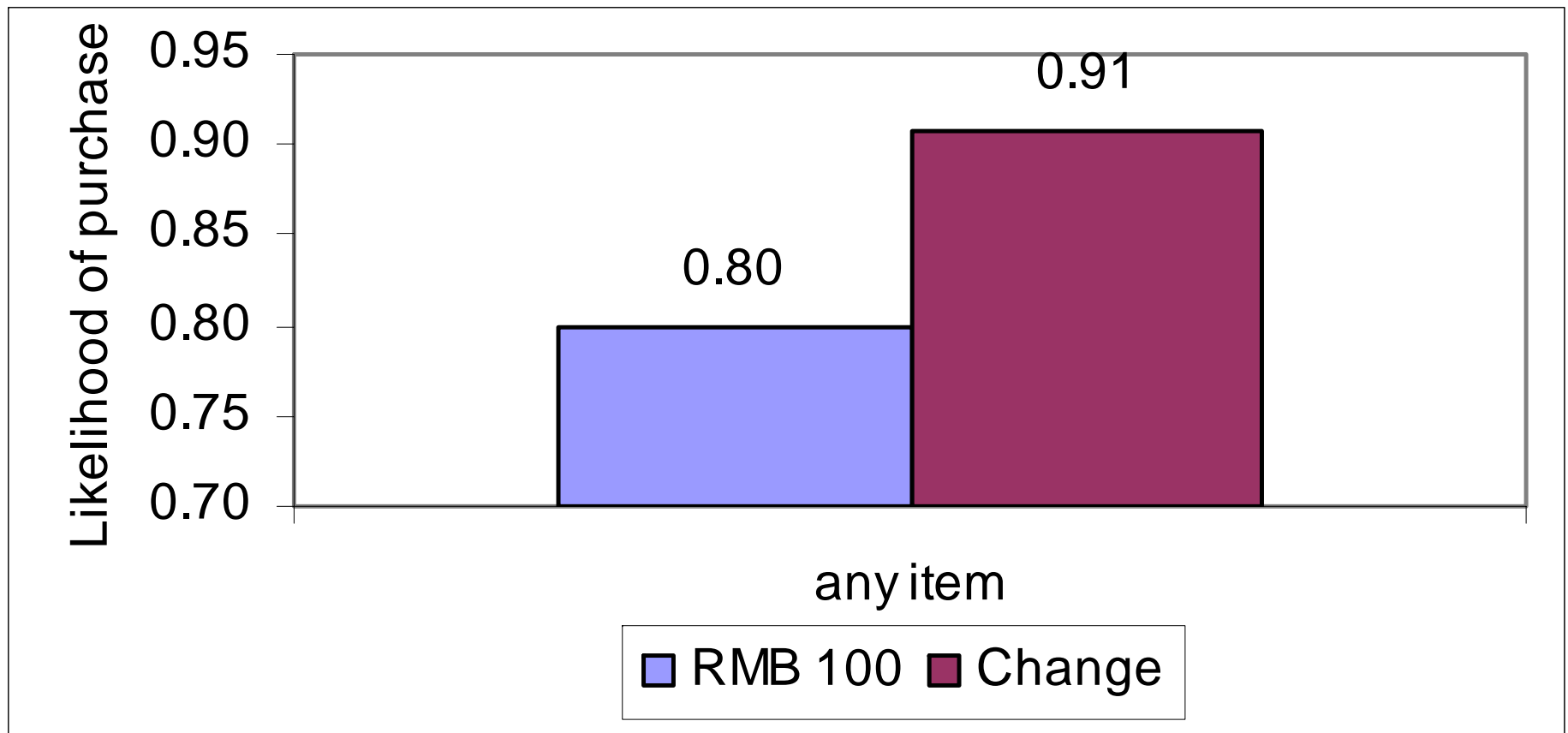


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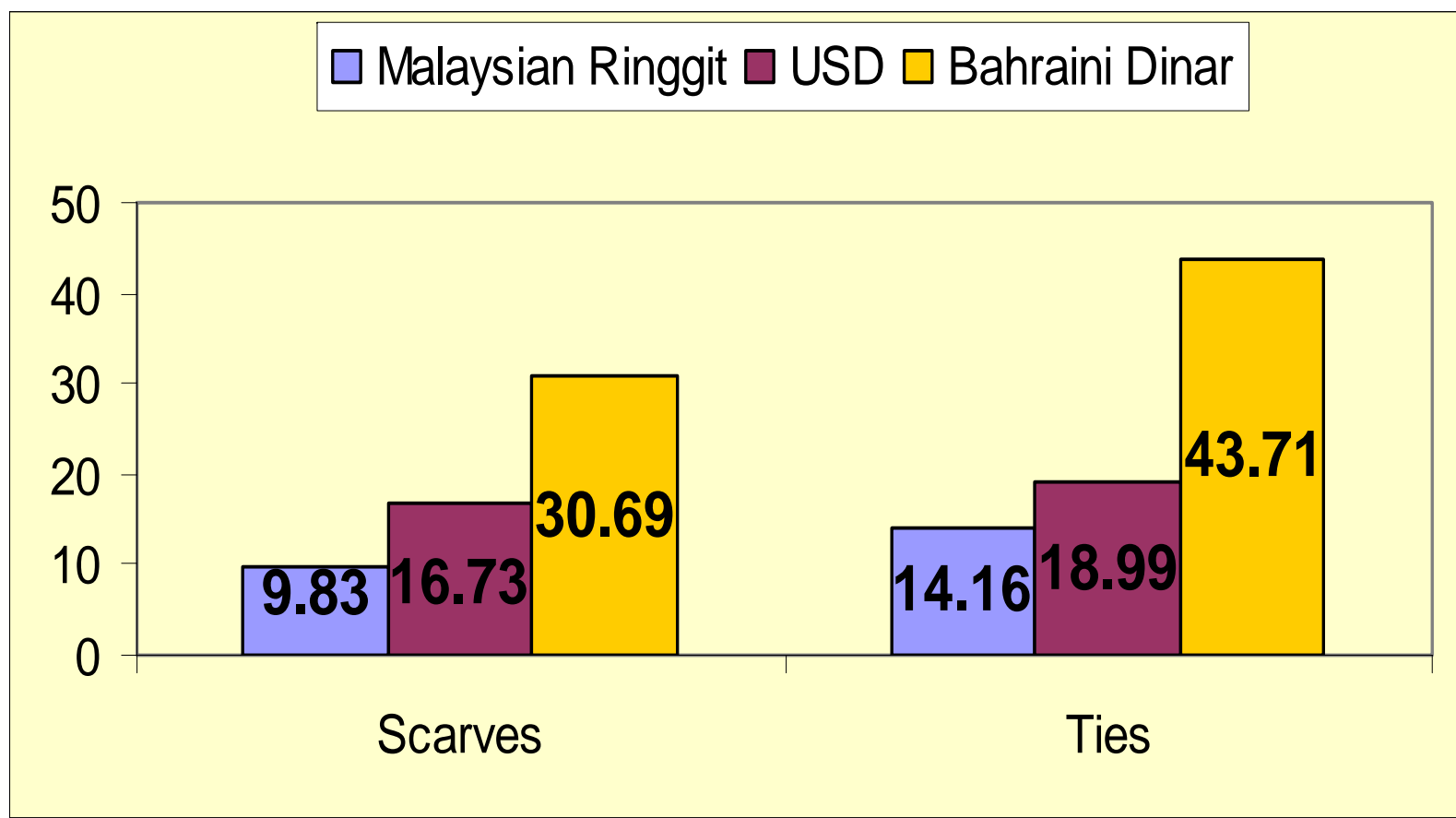
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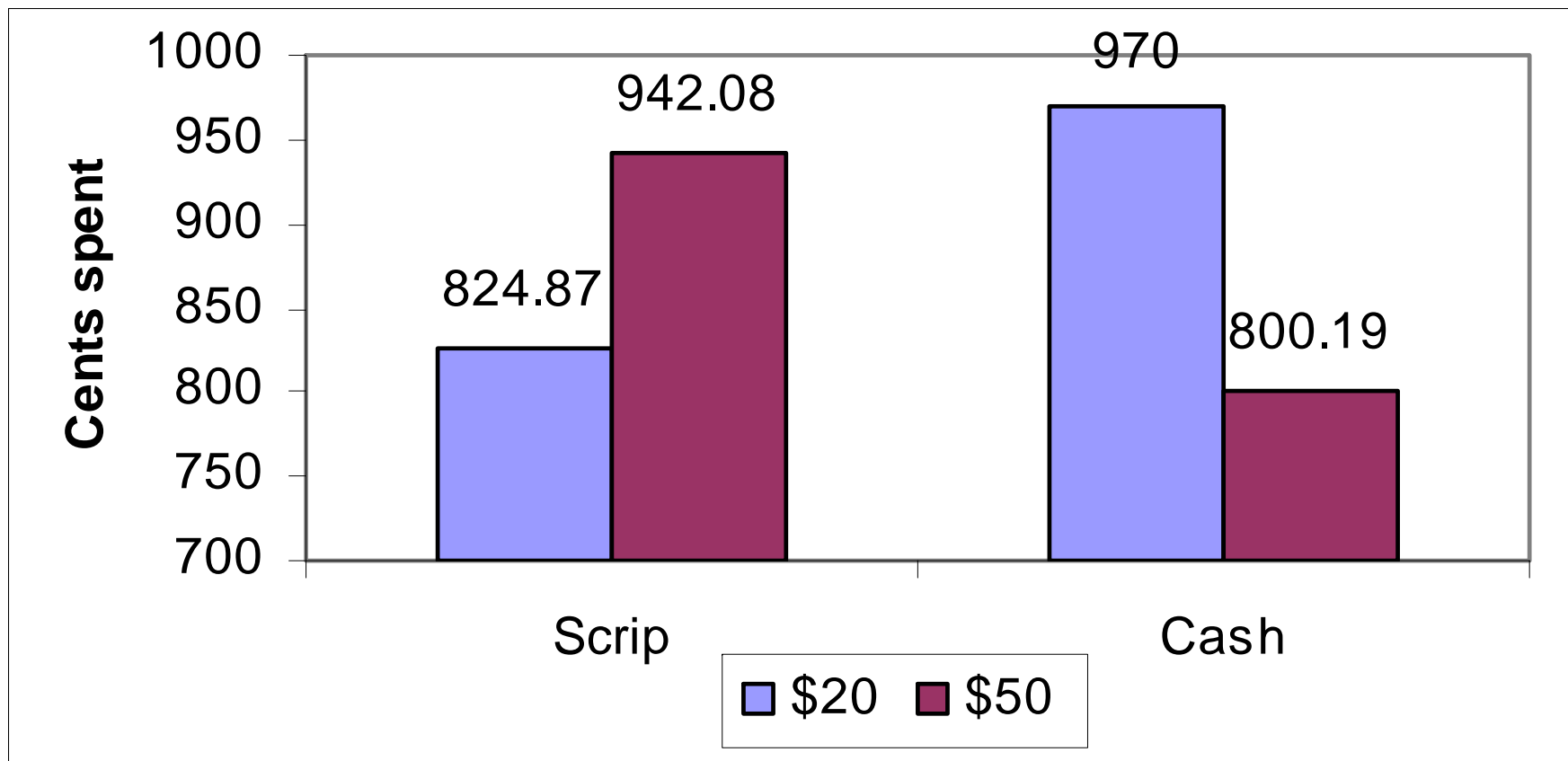
1b. *Denomination effects* generalize across countries with large amounts of money: S4, R&S, 04



2. Inadequate adjustment for exchange rates: *Face Value Effect*: R&S, *JCR*, 2002, Study 2



3. Inappropriate adjustment for form: *Are Gift Certificates treated like Monopoly Money?*





Some possible implications of the subjective value of money

- If consumers anchor on *Nominal value*
 - *Framing Effects*: The case of Euro changeovers
 - *Accordion Effects*: Perceptions of price differences
 - *Income Effects*: Consistency between income-expense
- If consumers inadequately adjust, then
 - *Persistence of Face Value Effect despite experience?*
 - *Denomination Anchor Effects?*
- Or if consumers inappropriately adjust, then
 - *Form effects*: Coins versus notes?
 - *Color, Material, Shape, and Size effects*