The Effect of Bidders' Regret Miscalibration on Bidding Decisions

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BIDDERS' REGRET MISCALIBRATION AND ITS EFFECT ON BIDDING DECISIONS
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This research investigates regret miscalibration that occurs during the bidding process. We examine two aspects of regret miscalibration: miscalibration in magnitude—anticipated regret that does not equal experienced regret for the same outcome, and miscalibration in type—focusing on the type of regret that is lesser in magnitude. We explore the implications of regret miscalibration on bidding decisions and examine the role of availability in attenuating regret miscalibration. Two studies that we ran provide support for our hypotheses.

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EXTENDED ABSTRACT

This research investigates regret miscalibration that occurs during the bidding process: anticipated regret being greater than experienced regret, and the effects of anticipated regret on bidding decisions.

In auctions, there are two types of unfavorable outcomes that are likely to trigger regret: winning but overpaying for the auctioned item and losing the chance to get a bargain. Since regret is most commonly associated with negative outcomes, we look at regret for these two outcomes. Research on affective forecasting (Frederick & Lowenstein 1999; Wilson & Gilbert 2003) suggests that bidders are likely to overestimate their future regret. Since individuals will anticipate and act to minimize future regret (Mellers, Schwartz & Ritov 1999; Simonson 1992), we propose that anticipated regret over winning but overpaying will lead to more conservative bidding (i.e., less likelihood to bid, lower bid amount) while anticipated regret over losing the chance to get a bargain will lead to more aggressive bidding (i.e., more likelihood to bid, higher bid amount).

We also investigate the moderating role of perceived scarcity in the effects of anticipated regret on bidding decisions. We hypothesize that when the auctioned item is scarce, regret over losing the chance to get a bargain is likely to have a dominant effect on bidding, whereas when the auction item is not scarce, regret over winning but overpaying is likely to have a dominant effect on bidding.

We conducted three studies to test our hypotheses. Study 1 (n=91) looks at the effects of anticipated regret on bidding. Participants read a scenario that their university bookstore is testing a dinner for two at Bertucci’s, and rated their anticipated regret for winning and overpaying as well as anticipated regret for losing the chance to get a bargain. We counterbalanced the measures of bid amount and anticipated regrets; order has no effect on bid amount, suggesting that anticipated regrets occur naturally during the bidding process. Regression analysis shows that regret for winning and overpaying decreased bid amount while regret for losing the chance to get a bargain increased bid amount, thus providing support for our hypotheses.

Study 2 (n=240) examines both regret miscalibration and the effects of anticipated regret on bidding. We present a scenario where students can bid for more highly rated professors for their core courses in the next year. Each student has a total of 200 tokens to bid for four core courses and is provided with a reference price of 40-70 tokens for each course. After bidding on the first course and completing the anticipated regret measures (counterbalanced), participants spent several minutes on a filler task. Afterwards, participants are told the results of the auction: they either win but overpay for the course or they miss a spot in the course by a narrow margin, after which their regret is measured. Consistent with our hypotheses, we find that anticipated regret is consistently greater than experienced regret for both types of outcomes. Further, replicating the findings from study 1, regret for winning and overpaying decreases bid amount, while regret for losing the chance to get a bargain increases bid amount.

Study 3 (n=64) examines the moderating role of perceived scarcity in the effects of anticipated regret on bidding. We manipulate scarcity at two levels (high, low) in a 2-group, between-subjects design and measure participants’ anticipated regret and bidding decisions (i.e., place a final bid or not and bid amount). Consistent with our expectation, our results show that when perceived scarcity of the auctioned item is high, anticipated regret for losing the chance to get a bargain has a dominant effect and leads to increased bidding likelihood; when perceived scarcity is low, anticipated regret over winning but overpaying plays a dominant role and leads to decreased bidding likelihood.

In sum, our findings demonstrate regret miscalibration in the bidding process and the effects of anticipated regret on bidding. Bidders overestimate their future regret; further, their anticipated regrets for the two potential unfavorable outcomes have opposing effects on bidding, that is, anticipated regret for winning and overpaying leads to more conservative bidding, while anticipated regret for losing the chance to get a bargain leads to more aggressive bidding. We also demonstrate the moderating role of perceived scarcity. When the auctioned item is scarce, regret for losing the auction has a dominant effect on bidding and leads to more aggressive bidding; when the auctioned item is not scarce, regret for winning but overpaying has a dominant effect on bidding and leads to more conservative bidding. Our research contributes to the literature on affective forecasting and regret. We document regret miscalibration and the effects of regret in the dynamic bidding decision making process. Our research also contributes to the auction literature, explaining why consumers often overpay in internet auctions (Ariely and Simonson 2003).

REFERENCES


