Understanding the Role of Materialism in the Endowment Effect

Inge Lens, Catholic University Leuven, Belgium
Mario Pandelaere, Catholic University Leuven, Belgium

Past research documents an asymmetry between willingness to pay and willingness to accept. We propose that materialism moderates this ‘endowment effect’. In three experiments evidence is found for a differential influence of materialism on WTP and WTA. Materialistic sellers demand higher prices for an endowment than less materialistic sellers. Material values do not predict buying prices. Increasing the attachment to material values with a mortality salience procedure augments the endowment effect even more, especially for materialists. The influence of materialism cannot be attributed to a mood effect or to an increased desirability of endowments in materialistic sellers.

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Inge Lens, Katholieke Universiteit Leuven, Belgium
Mario Pandelaere, Katholieke Universiteit Leuven, Belgium

EXTENDED ABSTRACT
People generally demand more money to give up an object in their possession, than they are willing to pay to obtain this object (Thaler 1980). This asymmetry between willingness to pay and willingness to accept is referred to as the ‘endowment effect’ (Kahneman, Knetsch, and Thaler 1990; Thaler 1980). It is widely assumed that the reluctance to exchange possessions observed in the endowment effect, can be explained in terms of loss aversion (Kahneman et al. 1990). The theory of loss aversion suggests that the positive experience of gaining an object cannot compensate for the pain of giving up a possession. As a result people are inclined to value possessions more than (monetary) alternatives of similar objective value (Kahneman and Tversky 1979; Tversky and Kahneman 1991). However, the same loss appears not to be as aversive for everyone at any time. Previous research revealed a number of moderators of the endowment effect (e.g., Liberman et al. 1999; Lin et al. 2006; Loewenstein and Issacharoff 1994; Strahilevitz and Loewenstein 1998). This paper aims to extend this line of research by proposing materialism as an additional moderator.

People who strongly endorse material values consider the acquisition of possessions as a central life-occupation, bringing forth happiness and success (Richins and Dawson 1992). Given the attachment of materialists to their possessions, we propose that materialistic ‘sellers’ are more reluctant to exchange endowments for money than less materialistic sellers, resulting in higher minimum selling prices (hypothesis 1). Next, we assume that materialistic ‘buyers’ are more willing to spend money on an object they don’t possess, relative to buyers low on materialism (hypothesis 2). Finally, we assume that the influence of materialism is more pronounced for sellers than for buyers, suggesting that the endowment effect increases with increasing materialism (hypothesis 3).

To test the hypothesis that materialism moderates the endowment effect, one hundred eighty-seven participants were recruited for a correlational study. Half of them were endowed with a coffee mug (sellers), the other half were not (buyers). Buyers stated a maximum buying price for the mug, whereas sellers reported their minimum selling price. Materialistic values were assessed with the Material Values Scale (Richins and Dawson 1992). The results suggest that materialistic sellers demand higher minimum prices than less materialistic sellers. No relationship between buying prices and materialism was found. Hypotheses 1 and 3 are thus supported, hypothesis 2 is not.

A second experiment was conducted with 78 male students replicating these findings with more valuable endowments (six technologically innovative gadgets, e.g., an optical, wireless computer mouse). Additionally, two alternative explanations are ruled out. The impact of materialistic values on selling prices cannot be attributed to a higher desirability of the gadgets for materialistic relative to less materialistic sellers or to differences in affect between more and less materialistic participants. In line with Terror Management Theory (e.g., Solomon, Greenberg and Pyszczynski 2004) and empirical evidence that reminding consumers of their own mortality induces or reinforces materialistic behavior (e.g., Mandel and Heine 1999; Kasser and Sheldon 2000), we predict in a third experiment that an increased endowment effect will be observed after a mortality salience induction and we assume that this increase will be stronger for materialistic consumers than for less materialistic consumers. In this experiment we first measured levels of materialism of two hundred eighty-two participants. Subsequently, we instructed half of the participants to write a short essay about their own death (experimental condition with death-related thoughts). Participants in the control condition wrote about a more neutral topic: their favorite music or a visit to the dentist. After a number of unrelated tasks, half of the participants in each condition stated their maximum buying price for a small gadget, the other half of the participants indicated their minimum selling price. The data again support the assumption that chronic levels of materialism moderate the endowment effect. Furthermore, evidence is found for the predicted three-way interaction between endowment condition (buyer-seller), mortality salience condition (death-related thoughts-neutral thoughts) and materialism. It appears that reminding participants of their own mortality results in an increased endowment effect, at least to the extent they endorsed material values prior to the mortality salience induction. These findings again support hypotheses 1 and 3. Similar to the previous studies, no influence of materialism on stated buying prices is found.

In sum, in two correlational studies and one experimental study we found that materialists demand higher prices for their endowments, relative to less materialistic individuals. Materialism, however, has no predictable impact on buying prices. These implications of materialism in the occurrence of the endowment effect enhance our insight in this extensively documented phenomenon, and, in doing so, advance our understanding of the (economic) consequences and the nature of materialism. Materialism has previously been associated with a near-sighted consumption pattern (Dittmar 2005; Watson 2003) and high aspirations for possessions and wealth (Kasser and Ryan 1996; Kasser and Sheldon 2000). However, our data suggest that materialists don’t necessarily want to have everything at any cost. On the other hand, the endorsement of material values seems to motivate people to demand higher prices for their goods, even when cheap or rather unattractive commodities are traded. So far, research on the effect of materialism on consumer behavior has mainly focused on spending tendencies and intentions of prospective buyers, whereas this paper shows that materialism might as well have important implications for the supply-side of market relations (e.g., in second-hand markets like eBay).

The current paper has demonstrated a robust relationship between materialism and the endowment effect. Although the current paper did not focus on any underlying mechanism, it is likely that materialistic consumers experience more loss aversion, resulting in higher selling prices and an increased endowment effect. Future research may assess the validity of this hypothesis.

REFERENCES


