

# From teddy bears to iPhones, we overestimate what others will pay for goods

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Compared to what they would pay themselves, most consumers overestimate what others are willing to pay for products, according to a new study in the *Journal of Consumer Research*. And that holds true for a large range of items, both real and imaginary.

"People typically overestimate the average willingness to pay in a population, and correspondingly, typically believe that others—even a specific person sitting next to them—will pay more," writes author Shane Frederick (Yale University). Frederick found that the average MBA student in his class was willing to pay \$27 for the DVDs of the first four seasons of the "Sopranos," but on average those same students estimated that other people would [pay](#) \$40.

In another experiment, Frederick randomly assigned students to partners and had them bid on items and estimate others' bids. Seventeen out of twenty-one students predicted that the other person would bid more than they themselves would.

"The documented [bias](#) appears to hold for all goods," Frederick writes. "It was found not just for DVDs, but also for chocolate truffles, books, teddy bears, sporting goods, iPhones, artwork, and even hypothetical or imaginary [goods](#) such as a trip to the moon or a magic pill that confers the ability to speak French."

The author found an average (and robust) bias of +40 percent, which held across a wide range of undergraduates, MBAs, respondents to an

online survey broadly representing the U.S. population, and summer picnickers in Boston.

The bias disappears when valuations are measured by non-monetary payments (such as the number of pencils one would be willing to sharpen to acquire a good). The author believes this signifies that many people fail to appreciate others' feelings about spending money.

This overvaluing bias may lead to a tendency for sellers to set prices too high, or for difficulty in negotiation when consumers and sellers have disparate valuations, the author concludes.

**More information:** Shane Frederick. "Overestimating How Much Others Will Pay for Goods." *Journal of Consumer Research*: June 2012 (published online September 17, 2011).

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