

The housing market: Consumers struggle to get the price right

January 15 2013

Consumers systematically mispredict both the selling and purchase prices of other consumers due to a lack of cognitive and emotional connection, according to a new study in the *Journal of Consumer Research*.

"As sellers, consumers fail to appreciate the extent to which endowment and the prospect of giving up an object and not getting to enjoy its benefits influence other owner valuations. On the other hand, as buyers, consumers fail to realize the extent to which lack of ownership and the prospect of giving up money to purchase an object impact other buyer valuations," write authors Didem Kurt (Boston University) and J. Jeffrey Inman (University of Pittsburgh).

In one study, a group of consumers was given coffee mugs (owners) and asked to predict how much others would ask for the mug. Another group who were not given mugs (buyers) was asked to estimate how much others would pay for the mug. Both groups failed to predict the prices of others in the same role. Owners underestimated the average selling price demanded by other owners, whereas buyers overestimated the average price offered by other buyers by over 20%.

These [biases](#) can have important [economic implications](#). For instance, when demand for homes is high in an area, buyers may overestimate how much others are willing to pay for a particular home and place a very high bid, resulting in overpaying. Buyers will suffer from reduced satisfaction with a transaction when they discover that others are actually

willing to pay less (or have already paid less) for the same or a similar object. Or, when selling used items of sentimental value, underestimating the selling prices of other owners may lead an owner to sell at a lower price, reducing not only the [economic benefit](#) of the sale but also decreasing the seller's overall satisfaction.

"Consumers rely on both their calculations and feelings when valuing objects for sale. And, since consumers inaccurately assess others' cognitive and [emotional states](#), they mispredict how much others value objects. However, the accuracy of their predictions can be improved by helping them appreciate similarities between themselves and others who are in the same situation," the authors conclude.

More information: Didem Kurt and J. Jeffrey Inman. "Mispredicting Others' Valuations: Self-Other Difference in the Context of Endowment." *Journal of Consumer Research*: June 2013.

Provided by University of Chicago

Citation: The housing market: Consumers struggle to get the price right (2013, January 15)
retrieved 3 May 2024 from

<https://phys.org/news/2013-01-housing-consumers-struggle-price.html>

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