

THE GEORGE BANKS EFFECT

PEOPLE PREFER DOMINATED OPTIONS TO AVOID BOOKING LOSSES

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SUMMARY

People don't like to pay for things they don't need, even if the unneeded product provides a price reduction. However this observation conflicts with existing theories of consumer choice, wherein, decreasing a product's size and increasing its' price ought to have a negative effect on its' value.

For example, from a normative perspective a *smaller and more expensive option* would be considered **dominated**, an option that, rationally speaking, should not be chosen since it would offer no additional benefits at a higher cost (Bernoulli, 1713). Behavioral theories would also predict that individuals would not prefer a *smaller and more expensive option*, contending that individuals judge the value of an option by its' acquisition utility, the value of the good minus its price; and its' transaction utility, the value of getting a good 'deal' on the item (Thaler, 1999).

However, I argue that people prefer to avoid purchases that exceed their prospective needs because the excess portion would represent a pending loss on their mental account.

In four studies, I explore this effect and the underlying psychological process.

HYPOTHESIS

THE GEORGE BANKS EFFECT: people prefer **dominated** options in order to avoid mentally booking a loss from a prospective purchase

METHODS (ALL STUDIES)

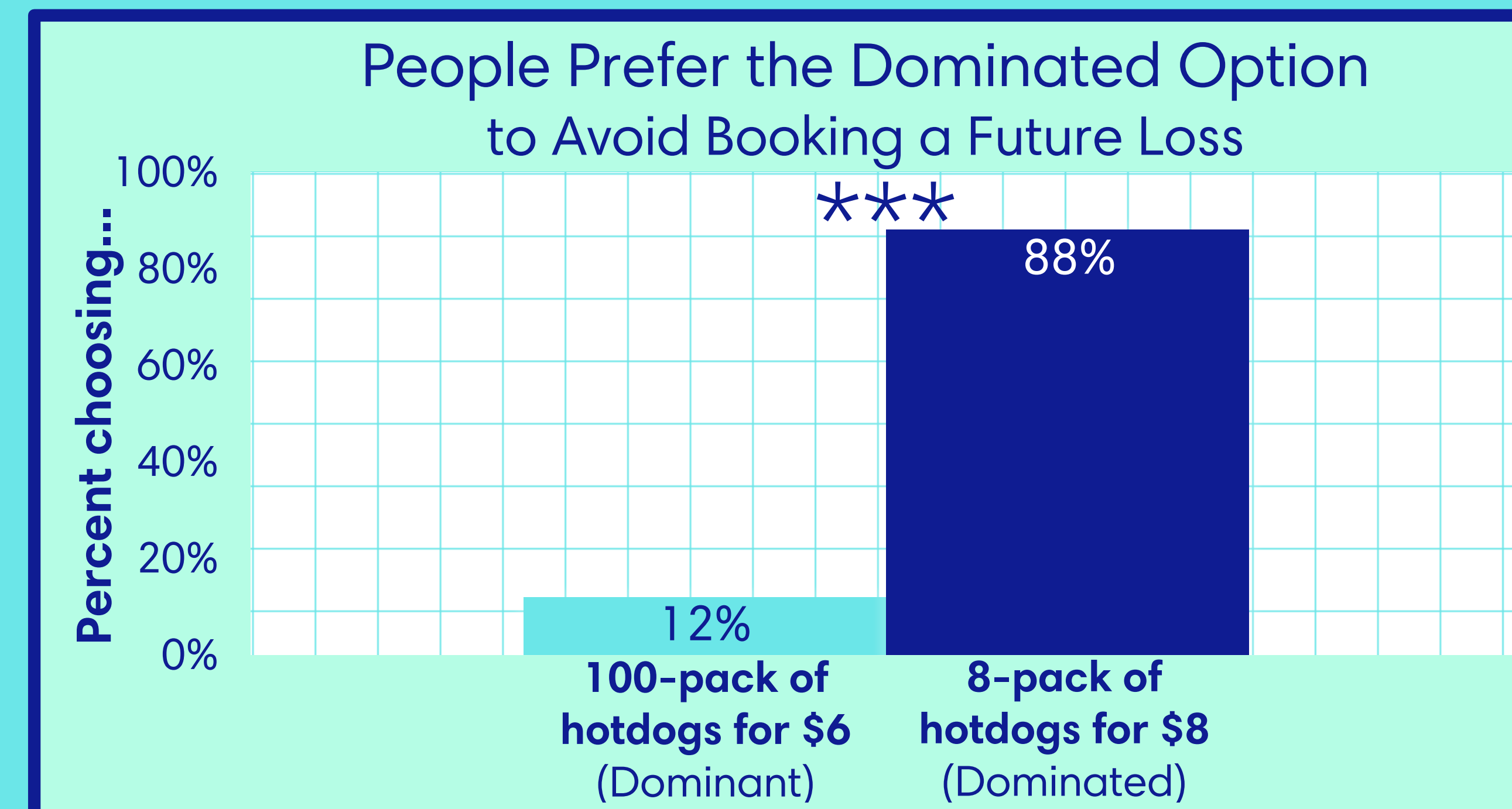
Participants imagined encountering two options* while shopping and indicated their preference:

- 1) **more** of a desired product at a **lower price (dominant)** (e.g., a 100-pack of your favorite hotdogs for \$6)
- 2) **less** of a desired product at a **higher price (dominated)** (e.g., a 8-pack of your favorite hotdogs for \$8)

*In all studies, brand and quality are held constant across options

EXPERIMENT 1: THE HOTDOG PARADOX

N = 100; Amazon Mechanical Turk



EXPERIMENT 2:

N = 167; University Students

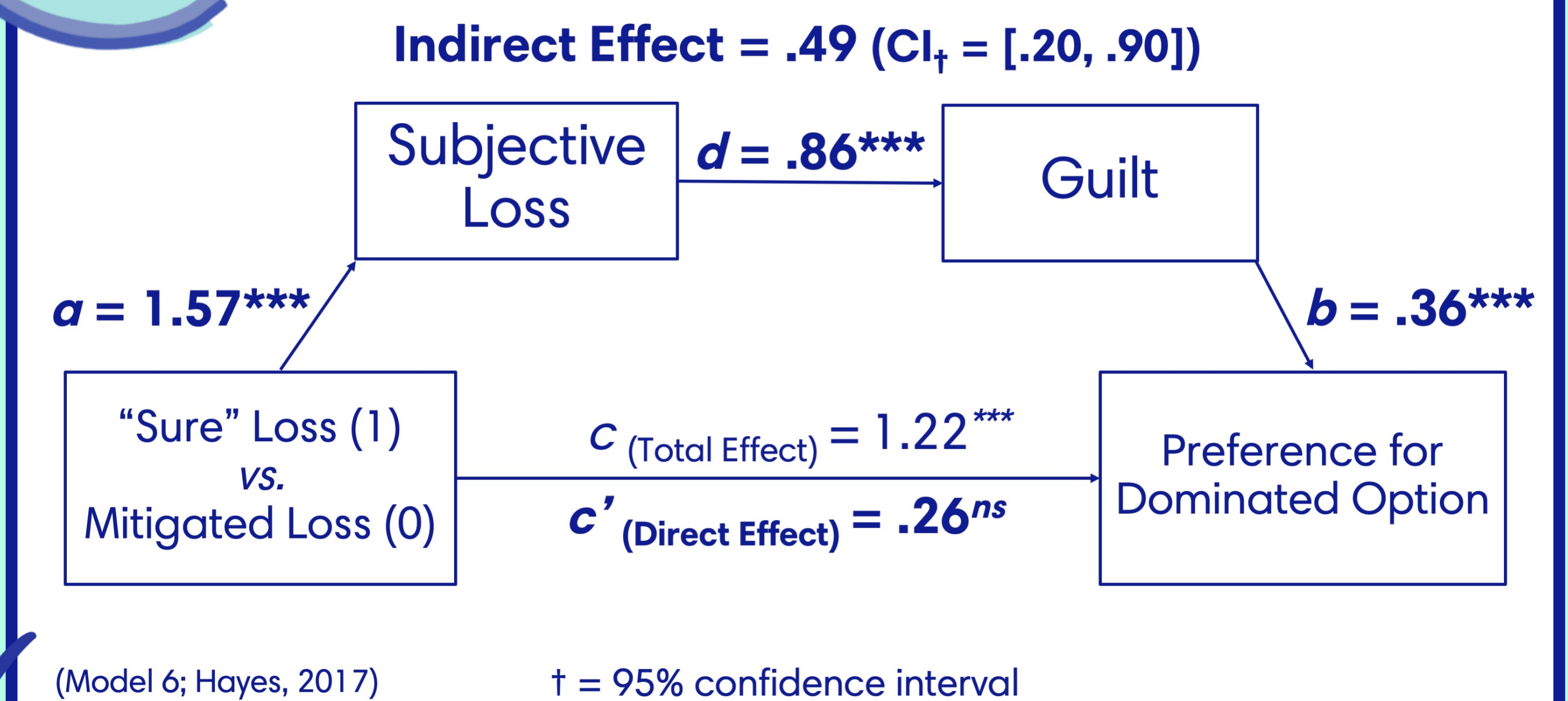
Participants imagined that they had forgotten to pack shampoo for vacation and encountered two options of their favorite brand: 1) a full-size bottle for \$3.05 (**dominant**); or 2) a travel-size bottle for \$3.95 (**dominated**).

Significantly more people preferred the dominated option (77%; two-tailed binomial, $p < .001$). Additionally, participants reported feeling a larger subjective loss (in dollars) when imagining purchasing the dominant option (Mann-Whitney $U = 2,763$, $z = -2.38$, $p = .017$).

EXPERIMENT 3:

MEDIATION; FRESH FRUIT
N = 196; Prolific Academic

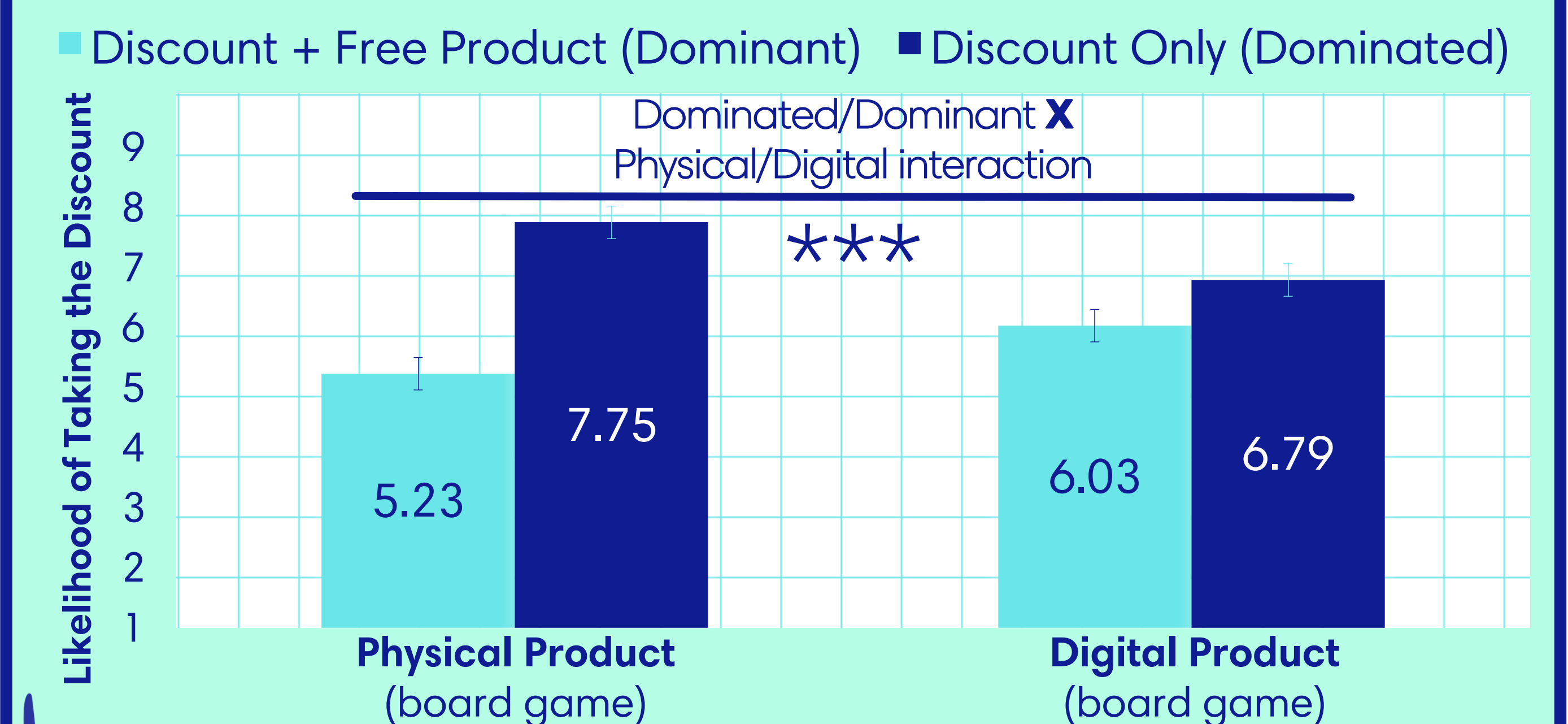
"Sure" Loss = additional product (fruit) will have no other use
Mitigated Loss = additional product (fruit) may have another use



EXPERIMENT 4:

MODERATION; BOARD GAMES
N = 404; Prolific Academic

Preferences for Dominated Option Moderated by Physical/Digital



TAKEAWAY

- People are motivated to avoid future losses and act in a way to mitigate prospective losses.
- Increasing product size can sometimes make people feel as if they are losing money.

For study details and references, please scan the QR code below:

