The psychology of pricing

- A few aspects
Pain of paying

- How would you pay for:
  - For vacations
  - For washing machines

- Timing and not just amount!

- What is the role of credit cards

- How can we reduce pain of paying
Credit Cards

- What can they help us with?
  - Payment is later
  - Useful to separate payment from consumption
  - Bill arrives for many products together
  - Other benefits such as cash back or contribution to charity
Mental Accounts I

- Assume you go to an expensive country to give a talk (Switzerland)
  • How painful would it be to pay X more for food etc?
  • How painful would it be if they pay you for your talk?
  • What about if they would have paid you in advance in your own currency
- What can we learn from this?
Mental Accounts II

- You are about to buy a jacket for $250. The clerk tells you it is for sell for $5 less in a different store (10 min away).
  - Would you go to the other store?

- You are about to buy a pen for $10. The clerk tells you it is for sell for $5 less in a different store (10 min away).
  - Would you go to the other store?
Mental Accounts III

- Season ticket to the theatre
  - Full price, 13% discount 45% discount
- How often would they go?

- First half of the season, full price went more often
- Second half, no difference
Mental Accounts IV

- Should you go to a play (ticket is $55)
  - Yesterday you just got a $50 parking ticket
  - Yesterday you paid $50 for a ticket to a basketball game
Mental Accounts Ideas

- Expenses are grouped into accounts
- Money if not fungible between accounts
- Judgments are relative to the accounts
Balancing accounts

- Balancing can occur daily weekly monthly
  
  • What implications does balancing have on behavior?
  
  • Taxicabs

- Accounts can be balanced narrowly or broadly
  
  • What effects can this have on behavior?
Mental accounts questions

- What would it mean for stock market decisions?
  - Influence of buying prices
  - Influence of stock profitability
- How can you influence the account that we be “charged”?
- What is the strategy of ClubMed?
Cars in the city?

- Why
- What are the mental accounting advantages?
Market level phenomenon

- Companies report on many more small profits compared with small looses
- Preference for flat rates in telecommunication etc.
- Health clubs
- Etc ...