


Part 5:
The Long-lasting Effects of Decisions



How does an initial
decision affect future
decisions in that category?

How should people set a value
on the price of coffee?






Rational Model of Valuation

value is equated with price:

more pleasure = more money

less pleasure = less money




What is herding?
Our instinct to follow others.



What is **self-herding**?

Our tendency to follow the same decisions we have made in the past (future decisions are influenced by previous decisions).





We remember our actions
far better than our transient
emotional states.

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Products


Trackball mouse	\$79	X
Keyboard	\$79	✓
Cheap wine	\$79	X
Expensive wine	\$79	✓
Design book	\$79	X
Chocolates	\$79	X

People do not think that their
valuations are influenced by
the arbitrary number.

But they are!

Auctions of Real Products

	item	low ID # avg. bid	high ID # avg. bid	increase
trackball		\$10.38	\$21.52	107%
keyboard		\$21.81	\$42.03	93%
\$9 wine		\$11.62	\$19.55	68%
\$82 wine		\$17.42	\$27.76	59%
design book		\$14.15	\$23.00	62%
chocolates		\$10.04	\$16.24	62%



Once a particular number is introduced, it becomes the reference point from which prices are judged (the "anchor").




relative comparisons of products
in the same category remain fixed



The first decision becomes
an anchor that influences
future decisions.






Mark Twain showed how the exact same experience can be regarded as good or bad, depending on how it is presented, or framed.

Because our pre-existing preferences are often undefined, value can be constructed through arbitrary influences.



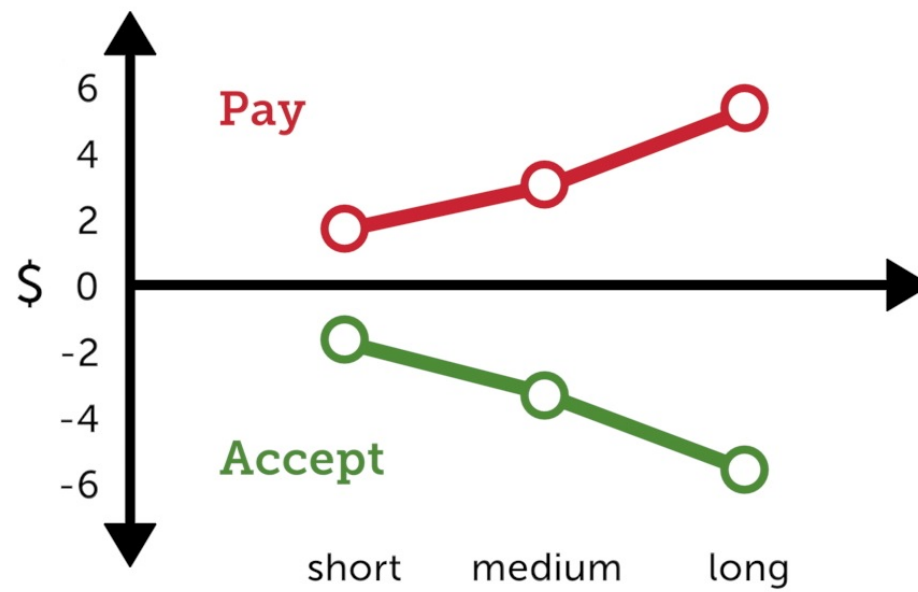
A photograph of a jail cell. The cell is dimly lit, with a bed in the background and a barred door in the foreground. The door is slightly ajar, revealing a glimpse of the outside. The bars are dark and heavy, creating a grid pattern. The bed has a white pillow and a grey blanket. The walls are a dull, light color.


Even going to jail can
look like a vacation.

Poetry Recital Valuation



Poetry Recital Valuation





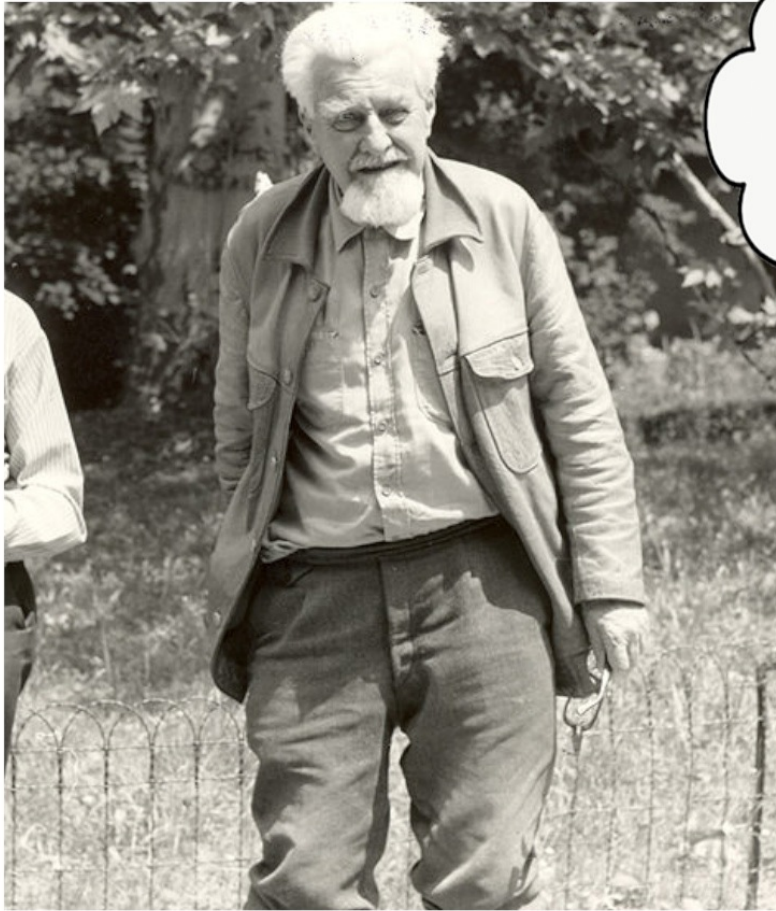
Starbucks has worked to
differentiate its brand.

We make comparisons
within (not across) categories.



Coherent Arbitrariness



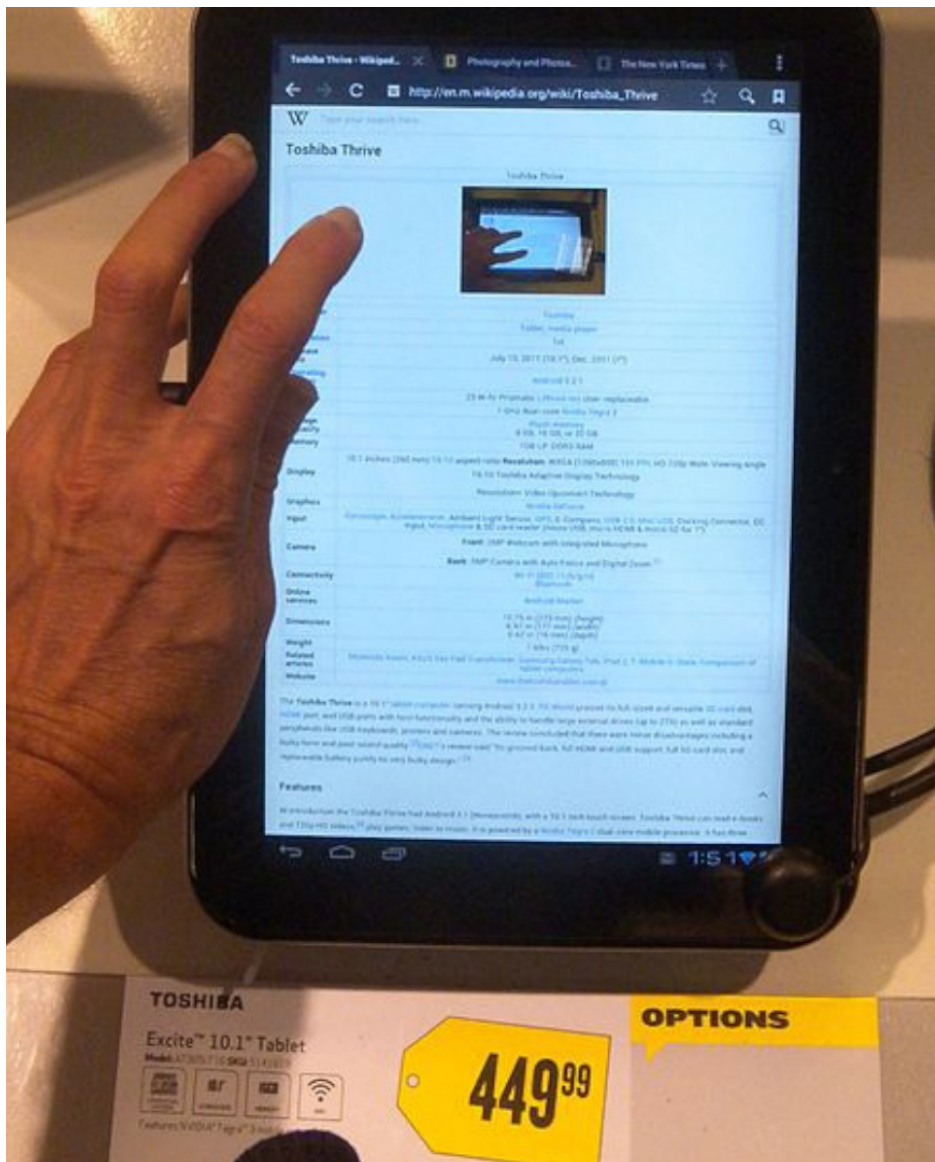


Mama!






The iPad is priced relative
to the iPhone.



All other tablets follow iPad pricing.



Once a product is
introduced in a certain way,
that becomes a permanent
point of reference.