

The Endowment Effect in the Future

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Abstract

It has been shown that people give a higher value to an object just because they own it. This pattern has been called the endowment effect, and it has been proposed that it can be caused by loss aversion (Thaler, 1980). Many researchers have investigated under which conditions the endowment effect is strengthened or weakened. However, little is known about the endowment effect for transactions that will happen in the future. If people were asked to give up an object in the future, would they require more than they would be willing to pay to obtain that same object in the future? If gains are discounted in time more than losses (Fredderick, Loewenstein, and O'Donoghue, 2002), which has been called the sign effect, then the endowment effect should be strengthened in the future. On the other hand, this contradicts conflict theory, which proposes that the strength of both approach and avoidance forces decreases in time, but the discounting of avoidance forces is steeper (Lewin, 1951; Miller, 1944). The authors found that future loss aversion was smaller than present loss aversion, which is in line with conflict theory, however, the endowment effect in the future scenario is not significantly different from the endowment effect in the present scenario.

Keywords: Endowment effect, Loss aversion, Sign effect

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