The Endowment Effect in the Future: How Time Shapes Buying and Selling Prices

Shohei Yamamoto
Pompeu Fabra University

Daniel Navarro-Martinez
Pompeu Fabra University

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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 can be caused by loss aversion (Thaler, 1980). However, little is known about the endowment effect for transactions that will happen in the future even though these situations are common in daily life. For example, in online flea market services individuals make their transaction with others by deciding the meeting place and time beforehand. A buyer and seller would be interested in coordinating the best timing to make a transaction. Is it today, in the near future, or in the more distant future? If gains are discounted in time more than losses (Frederick et al, 2002), which has been called the sign effect, then the endowment effect should be strengthened in the future. However, no study has tested the sign effect in the context of the evaluation of objects. We conduct four studies in which the transaction timing of three different products is systematically changed for buyers and sellers. The first three studies show that delaying transactions into the future increases the endowment effect across different products, and we show that this pattern is produced by gains being discounted in time substantially more than losses. Furthermore, fixing the transaction timing for the money did not fundamentally affect this increased endowment effect in the future. The fourth study also rules out the possibility that this pattern is caused by sellers anticipating becoming more attached to the products with time.

Keywords: Endowment effect, Loss aversion, Time preferences, Sign effect
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