

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 is 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 losses
- Preference for flat rates in telecommunication etc.
- Health clubs
- Etc ...