Marketing Colloquia

Spring 2016

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Thursday, March 24, 2016
Where: *741 JMHH*
When: *12:00 PM* to 1:20 PM

Opening the Books on Mental Accounting

ABSTRACT: Understanding how outcomes are evaluated -- jointly or apart -- is a fundamental question for judgment and decision making. A large literature documents the significant influence of prior losses on risk attitudes. The findings appear contradictory: some studies find greater risk- taking after a loss, whereas others show the opposite – that people take on less risk. I reconcile these seemingly inconsistent findings by distinguishing between realized versus paper losses, arguing that while the latter loss is evaluated jointly with a prospect within the same mental account, the former closes the account and resets the reference point. To provide support for this framework, I use new and existing data to replicate prior findings and demonstrate that following a realized loss, individuals avoid risk; if the same loss is not realized, a paper loss, individuals take on greater risk. I then apply the theory to deterministic outcomes, showing that the use of category membership to predict whether outcomes are evaluated jointly within the same mental account or separately in different accounts reconciles the inconsistent evidence on hedonic editing. These results have implications for optimal monitoring and the framing of consumer decision-making over time.

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