IS THE ENDOWMENT EFFECT AN EXPECTATIONS EFFECT?

Ori Heffetz  
Samuel Curtis Johnson Graduate School of Management, Cornell University

John A. List  
University of Chicago

Abstract
A hallmark result within behavioral economics is that individuals’ choices are affected by current endowments. A recent theory due to Kőszegi and Rabin (2006) explains such endowment effect with a model of expectations-based reference-dependent preferences. Departing from past work, we conduct complementary experiments to disentangle expectations—verified probabilistic beliefs held by subjects—from other features of endowment—such as “assignment” to a good—hence allowing us to compare the effect of expectations with that of other variations. While mere assignment can affect choices, we do not find a large role in the effect for Kőszegi-Rabin expectations. (JEL: C9, D11)

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E-mail: oh33@cornell.edu (Heffetz); jlist@uchicago.edu (List)