



THE EXPECTATION EFFECT ON MATERIALISTIC PEOPLE AND HUMAN MIND

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The concept of behavioral economics emerges from the economic decisions that we make. It involves the psychological aspects of the human mind. Through the study of behavioral economics, we tend to look at the irrational decisions and choices made by individuals. One of the anomalies and incompleteness seen in the standard model is the effect of expectations. As an innate human, we tend to anticipate a lot of things from our day to day lives which leads to an increment of utility or satisfaction. But, the utility that is derived from expectations is not stagnant but keeps fluctuating. Numerous studies have found that expectations can change one's perception. Behavioral economist Dan Ariely states that "the reality we observe or the experience we observe is influenced by what we think we are going to observe". To be more clear, it is about how our mind can change the reality we experience. This study will focus on how the utility or satisfaction we derive keeps changing. To achieve this, study 1- A survey has been conducted among materialistic people and the changes in their hedonic levels will be recorded. Study 2-To elucidate Dan Ariely's theory of mind gets what it expects; two experiments from the review of literature will be included for this study. A placebo experiment has been done on 20 people to show how the reality we see is based on the expectations we make.

KEYWORDS : Expectation Effect, Utility, Satisfaction**RESEARCH PROBLEM**

This study is concerned with materialists who often believe that acquisition of products gives them greater happiness but this has not been examined empirically. Expectations have a great impact on our everyday life. Therefore, this study will make us understand better that procurement of products does not provide the same utility or happiness derived from expectations and it will also reveal how anticipated thoughts can influence our lives.

OBJECTIVES OF MY STUDY:

The main objective and the purpose of my study are to understand the expectation effect stated by **Richens and Dan Ariely**. This study will prove why wanting (before product purchase) gives more happiness than having (after product purchase). Part two of this study will make us understand the outcome of expectations in our lives.

From part 1 and 2, two specific objectives will be achieved:

1. To show that utility or satisfaction derived from expectations does not remain the same.
2. To show that the reality or experience we face is influenced by what we think.

SCOPE OF MY STUDY:

- This study is designed to understand the hedonic increment and decrement (To observe the changes in level of satisfaction or utility) during the process of purchasing. The intent of this study is to exclusively address individuals with high materialism. Therefore, the survey will be based only on materialistic people.
- As the study is about materialistic consumers, the research will be based only on the purchasing process of a product.
- The survey will be conducted only for iPhone users.
- The number of respondents is restricted to 50 members.
- The second part of the study will include a placebo experiment conducted among 20 people.
- The respondents and participants are from Coimbatore district of Tamil Nadu.

METHODOLOGY USED:

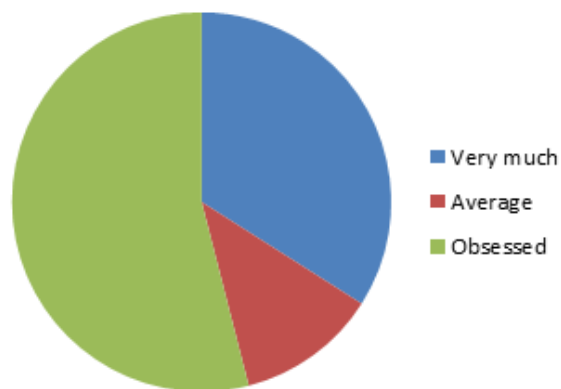
- The study is primarily centered on quantitative analysis.
- The research work is based on the primary source of data collected by online survey.
- The results of the survey will be presented in a pie chart or a graph.

INTRODUCTION

Expectations determine our reality and they can have a major impact in every choice we make. In a study it was found that people who spent a lot of time for millennium celebration did not have the same satisfaction as others because they expected a lot. Therefore expectations will lead to anticipatory utility which refers to the utility or satisfaction derived from the expectations we make in our day to day lives. The expectation effect stated by two economists, Marsha L Richens and Dan Ariely are, "When wanting is better than having" and "Mind gets what it expects". This study will focus on the expectation effect stated by Richens and Dan Ariely.

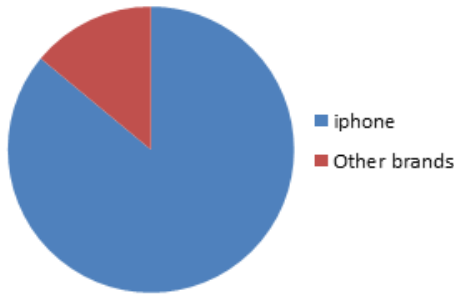
STUDY 1: RICHENS THEORY ON EXPECTATION EFFECT - SURVEY ON MATERIALISTIC PEOPLE.

Marsha L Richens proposed a theory which states, wanting something can give more satisfaction than having it. To prove this theory, a survey was conducted among 50 materialistic people who are obsessed with using iphones. Materialistic people are those who are attracted to the objects around them. According to them, objects give them the ultimate satisfaction and their expectations always lie on the objects they possess around them. Materialists believe that acquisition of products gives them the most satisfaction but in reality, the satisfaction or utility does not remain constant after acquiring the product.

FIGURE 1:

A

HOW MUCH DO YOU LIKE APPLE PRODUCTS?

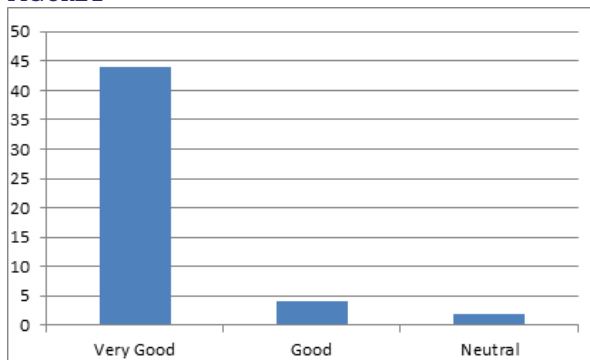


B

IF YOU HAD TO PURCHASE A PHONE IN THE FUTURE, WHAT BRAND WILL YOU PREFER?

- In figure 1(A), the respondents were asked how much they like apple products. 34% of the respondents liked apple products very much, 12% of the respondents came under average and the majority 54% of the respondents are obsessed with apple products.
- In figure 1(B), in response to the question, 86% of the respondents are willing to own a iPhone in the future and the remaining 14% of the respondents wish to have other brands
- Therefore, this data clearly shows that the majority of the consumers are highly materialistic towards apple products.

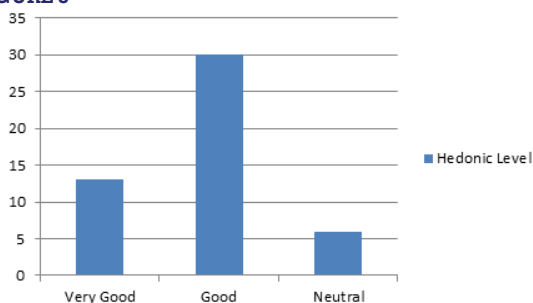
FIGURE 2



HOW HAPPY OR EXCITED DID YOU FEEL BEFORE BUYING YOUR FAVOURITE IPHONE?

- To record the hedonic level of each respondent, a question was asked about their satisfaction level before purchasing their favorite iPhone. In figure 2, about 44 people felt very good and happy before buying the phone. 4 respondent felt good and 2 respondents felt neutral before purchasing their phone.
- This data shows that the hedonic levels are high before purchasing their favorite iPhone. Their expectations about acquiring a new phone have caused the hedonic level to rise and this is also called as anticipatory utility.

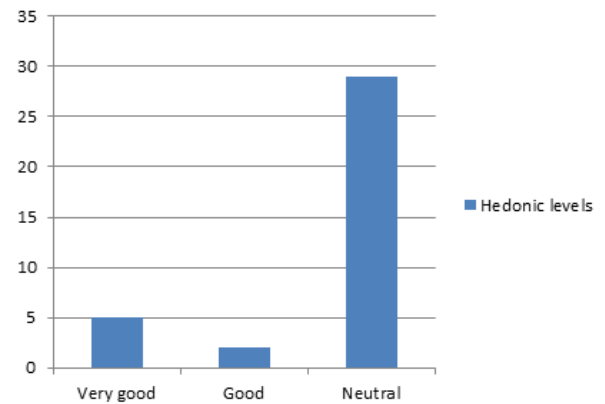
FIGURE 3



HOW HAPPY OR EXCITED DID YOU FEEL RIGHT AFTER BUYING YOUR FAVOURITE IPHONE?

- In figure 3, the respondents were questioned about their satisfaction level right after purchasing their iPhone. 13 respondents felt very good, 30 were feeling good and 6 respondents felt neutral.
- It is clearly seen that the hedonic levels have gone down. Previously, about 44 respondents felt very good before buying the phone but it has reduced to just 13 respondents.

FIGURE 4



HOW HAPPY OR EXCITED DID YOU FEEL AFTER FEW DAYS OR MONTHS?

- In figure 4, the respondents were questioned about their satisfaction level after a few days or months after acquiring their favorite iPhone.
- It was seen that their satisfaction level or utility has completely gone after a few days of getting their iPhone.
- After a few days or months, 5 respondents felt very well, 2 respondents felt good and the remaining 29 respondents felt neutral.

CONCLUSION OF SURVEY BASED ON RICHENS THEORY:

From the above survey, it is clear that the theory stated by Marsha L Richens fits perfectly in today's world. All the respondents from the survey had fluctuations in their hedonic level. They felt the maximum level of satisfaction before acquiring the product and their expectations gave them more happiness. High-materialism consumers fix standards for their acquisitions that are difficult to meet, which results in lower product satisfaction after acquisition of products. Therefore, it's proven that wanting is better than having and the utility or satisfaction does not remain the same but keeps changing.

STUDY 2: DAN ARIELY'S THEORY OF EXPECTATION EFFECT

Dan Ariely's expectation effect revolves around how the mind gets what it expects. According to him, "when we anticipate something the world can actually conform to our expectations and be a bit closer to what we expect it to be". Therefore, it is about how our mind can change the reality that we experience. To understand how this works, professor Dan Ariely conducted different types of experiments to show how expectations change the reality we face. From the review of literature, this study will include three experiments conducted by Dan Ariely and additionally, a placebo experiment was conducted among 20 people to understand the expectation effect stated by Dan Ariely.

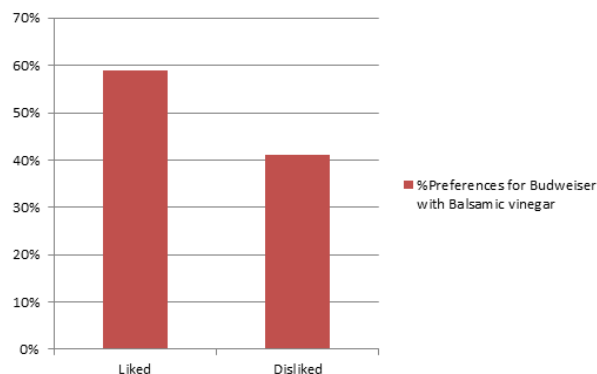
EXPERIMENT 1: THE BEER EXPERIMENT

The Beer Experiment was conducted by three researchers namely Leonard Lee, Shane Frederick and Dan Ariely in the year 2006. The study was to show how expectations can change one's preferences and experience. The experiment was conducted among 388 participants and they were divided into two groups. The experiment included two kinds of beer- 1)

Budweiser 2) Budweiser containing balsamic vinegar. The experiment had two conditions to be fulfilled which was the blind condition and before condition. In *blind condition*, the participants were given with both the beers (Budweiser and Budweiser containing vinegar). They tasted both the samples without any information about the contents. In the *before condition*, the participants were told which sample contained balsamic vinegar prior to tasting either. Actually, balsamic vinegar has the tendency to make the beer tastier but in the real world, people hate vinegar and they think it's disgusting to drink a beer that contains vinegar.

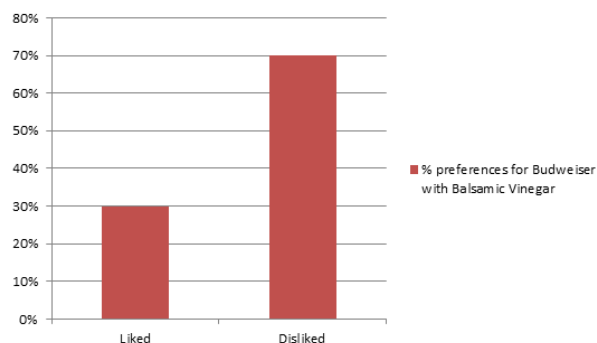
RESULTS OF THE EXPERIMENT:

Blind Condition



- In blind condition, the participants did not know that one of the samples contained balsamic vinegar; about 59% of the participants liked the beer which had vinegar in it and they preferred more of it.

Before Condition



- In the before condition, the participants were told which samples contained balsamic vinegar. In this condition, about 70% of the participants disliked Budweiser with balsamic vinegar.

INFERENCE OF THE BEER EXPERIMENT

Both the conditions had different results because of the expectations made by the participants. In blind condition, the participants assumed both the samples of beer were normal but in the end, they liked Budweiser with balsamic vinegar the most because balsamic vinegar has added more taste to the beer. In the before condition, the participants knew which sample contained balsamic vinegar and because of that they hated the Budweiser that had vinegar in it. Therefore, knowing something in advance or expecting something in advance can change how we taste it.

EXPERIMENT 2: PRICING PLACEBO

Baba Shiv, Ziv Carmon and Dan Ariely conducted a study on the placebo effects of marketing actions. The authors reveal that marketing actions, such as pricing, can change the actual efficacy of products which they consume. Consumer's views and expectations are shaped by experiences in their day-to-

day lives which often influence their judgments of products and services. For example, customers often believe or judge that lower-priced items are of lower quality and higher-priced items to be good in quality. Consumer's views and expectations can also affect their subjective experiences. For instance, a drink may taste better if it has a popular brand's label than if it is an unlabeled or unpopular brand. The pricing placebo experiment was conducted among 38 participants who work -out regularly (at least three times a week). These participants consumed Twin lab Ultra Fuel before and during a workout. Before consuming the energy drink, the participants were shown the list of the ingredients in the energy drink and they were also told that the energy drink was from the recently manufactured set. One group of participants was told that the energy drink was purchased at the regular price of \$2.89 and another group was told that the regular price of the energy drink was \$2.89 but it was purchased at a discounted price of \$.89 because the energy drink was bought in bulk.

RESULTS OF THE EXPERIMENT:

After working out, participants were asked to rate their intensity of workout on a scale that ranged from -3 (not very intense) to +3 (very intense) and how exhausted they felt on a scale that ranged from 1 (not very exhausted) to 7 (very exhausted). The results show that participants in the reduced-price (discount price) condition rated their workout intensity as lower (-.4) and the regular-priced condition rated high (6), and participants in the reduced-price condition indicated that they were more fatigued (4.5) than did those in the regular-price condition (3.7).

INFERENCE OF PRICING PLACEBO EXPERIMENT:

The placebo theory clearly proves hereby that higher price equals better quality. People blindly believe and rate the quality based on price range and their expectations about the product is also dependent on the price range. This placebo effect emerges from the expectations about the efficacy of the product.

EXPERIMENT 3: POISON PLANT PLACEBO

To prove the expectation effect stated by Dan Ariely, an experiment was conducted among 20 people in Coimbatore district of Tamil Nadu. The experiment is a type of placebo experiment where the 20 participants were blindfolded and they were told that their right arms will be rubbed with a poisonous plant. Actually, the plant which was rubbed was not poisonous; it was just a harmless plant.

INFERENCE OF THE EXPERIMENT:

It was seen that the participants became frightened when they were told that the plant was poisonous. 8 of the participants felt mild burning with itchiness even though the plant was harmless. The placebo experiment shows how the human mind makes up expectations about a particular thing which in turn influences their experience. In this experiment, 8 participants expected the after effect of the plant to be dangerous. Due to fear and frame of mind, the participants felt a burning sensation and itchiness.

CONCLUSION

The research study shows that expectations can influence everything from our perception of taste, enjoyment of experiences and our performance on specific tasks. In part one of the study, people expected a lot of happiness and satisfaction from their favorite product but after the acquisition, the utility or satisfaction was less because expectation overrides the satisfaction. It was also seen that the utility derived from everyday lives does not remain the same but keeps changing (fluctuations in hedonic levels were observed from the survey). Normally, when people are aware of a plausible or desired outcome, their perceptions and

behavior are affected in some way. It was seen that the effects beer experiment and the pricing placebo was dependent on one's belief and expectations. When a person believes something will happen, the belief alone creates that possibility. Therefore, from the study it is proved that the reality or experience we face is influenced by what we think.

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