

ABSTRACT

THE IMPACT OF THE ENDOWMENT EFFECT ON AN INDIVIDUAL'S CHOICE UNDER UNCERTAINTY

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The endowment effect refers to the tendency of people to place greater value on an object when it is in one's possession. While some theories traditionally attribute the endowment effect to loss aversion, new theories suggest cultural and more cognitive-related explanations as evidences for the elicitation of the effect. The purpose of this study is to investigate the individual's susceptibility and the size of the endowment effect under uncertainty and certainty as well as its determinants such as cultural differences, type of endowed good, sociodemographic factors and risk aversion. Methodology: The study is in general based on a modified version of Knetsch's (1989) experimental research design. Moreover, the study was conducted outside of the laboratory environment using computer-assisted interviews (online surveys). Results: The endowment effect was evident in the exchange and valuation paradigm. The majority of subjects in the experimental treatments showed a tendency to retain their endowment, whereas a substantially higher willingness to accept (WTA) than a willingness to pay (WTP) was reported by the subjects in the valuation paradigm. The most revealing fact was that the endowment effect was sensitive to the type of good/endowment. Moreover, the endowment effect might be an artefact of the underlying relationship between the type of endowment and preferences. In addition, results generated cultural differences, hence some cultures were more susceptible to the endowment effect than others. However, there was not sufficient empirical evidence that linked risk aversion and socio-demographics to the endowment effect. Conclusion: The study approach serves as a potential leverage point and it persuades to investigate the explanatory power of the factors, in order to extend the existing knowledge and provide complementary results that may further contribute to understandings of the endowment effect.

Keywords: behavioral economics, experimental economics, endowment effect, Willingness to Accept (WTA,) Willingness to Pay (WTP), choice, uncertainty, risk