ABSTRACT. Two studies were conducted with the aim of demonstrating anchoring induced biases in consumer price negotiations.

In Study 1, 96 undergraduate students of business administration who were recruited as subjects played the role of buyers of a condominium. All subjects were given the same market information. They were then asked to state whether their reservation price was higher or lower than an arbitrary price example (irrelevant anchor) that for different groups of subjects was either low or high. Finally, subjects indicated their reservation price. As would be predicted if adjustments from the anchor are insufficient, the indicated reservation price was lower when the anchor was low than when it was high.

In Study 2, employing 64 undergraduate students of psychology who conducted dyad negotiations about the price of condominiums, the effect of the irrelevant anchor on the initially indicated reservation price was replicated. In addition, an anchoring effect of the seller’s initial offer was observed. The results also revealed effects of both irrelevant anchor and initial offer on the purchase price.

From a public policy point of view, the results imply that consumers may be strongly influenced by irrelevant anchors provided by sellers. Provision of accurate market price information may however lessen the impact of irrelevant anchors.

NEGOTIATION

Consumers usually have to either accept or reject a list price for a product they want to buy. However, for purchases of non-standardized products such as houses, second-hand cars, and many services, the price is open to bargaining. In both cases, economic models assume that the purchase price will not exceed a fixed highest price or reservation price that reflects budget constraints and the value of the product for the buyer.

According to an alternative psychological conceptualization that has received substantial empirical support (Payne, Bettman, & Johnson, 1993; Simon, 1990), assumptions made in economic models are unrealistic since they fail to take into account consumers’ limited capacity for information processing. In fact, numerous studies have demonstrated that a limited capacity results in various judgment biases (Neale & Bazerman, 1991). From a consumer policy perspective, it
is therefore essential to learn about these biases so that they can be abated. If prices are open to bargaining so that consumers experience uncertainty about the purchase price, they may be particularly susceptible to such biases. A salient example is the purchase of a house or condominium where price bargaining is frequent. Since for most households this purchase is a very important financial decision (e.g., Gärling & Friman, in press; Lindberg, Montgomery, & Gärling, 1989), it is worthwhile to study factors that affect price negotiations in housing markets. In this article we will show that anchoring induced biases may affect buyers’ reservation prices in negotiations concerning prices of condominiums.

A contribution to the understanding of price negotiations is the concept of reservation price introduced in the bargaining-zone model (Raiffa, 1982). According to this model, each buyer and seller has a reservation price. The buyer’s reservation price is the highest price at which he or she would buy. Conversely, the seller’s reservation price is the lowest price at which he or she would sell. The bargaining zone is defined as the difference between the buyer’s and seller’s reservation prices. If the reservation prices overlap, the bargaining zone is positive and settlement is predicted, usually at the midpoint (e.g., Güth, Schmittberger, & Schwarze, 1982; Pinkley, Neale, & Bennett, 1994; White, Valley, Bazerman, Neale, & Peck, 1994). If the reservation prices do not overlap, no settlement is predicted.

Reservation prices are assumed to be exogenously determined (Raiffa, 1982; Thompson, 1990). This follows from the assumption that a rational negotiator has perfect knowledge and is able to discount all possible future outcomes accurately and instantly. Although empirical studies of price negotiations have found that reservation prices are predictive of negotiation outcomes (Pinkley et al., 1994; White et al., 1994), research also indicates that reservation prices are unduly affected by several types of information (e.g., Blount, Thomas-Hunt, & Neale, 1996). Therefore, White and Neale (1991) assumed that negotiators translate explicit reservation prices into “perceived resistance points” (Walton & McKersie, 1965) which are influenced by interactive aspects of the negotiation context such as, for instance, the opponent’s bargaining power, and then base their actions upon these resistance points.

It has consistently been shown that individuals are influenced by reference points when evaluating decision outcomes (Kühberger, 1998). In prospect theory (Kahneman & Tversky, 1979; Tversky &