Concept

Endowment effect

We value something more simply because it is ours.



In Spanish
Efecto dotación

Origin
Thaler (1980); Kahneman, Knetsch and Thaler (1990)

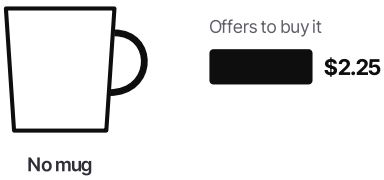
What problem it addresses

It explains why we ask more to sell something than we would pay to buy it, and why free trials work.

An example

In a class, mugs were handed out at random to half the students. The other half could buy them.

Those without the mug



The median of what they offer: **$2.25.**

Those with the mug



The median of what they ask: **$5.25.**

It was the same mug, handed out at random a few minutes earlier. Owning it more than doubled its value.

Why it happens

1 

What we have becomes our reference point.

2 

Giving it up feels like a loss,

3 

and losses weigh more than gains.

Applications in design

Use it like this

Let people try before buying: what gets used feels like one's own.

Avoid

Free trials that turn into paid plans without clear notice.

Don't fall for it

Before turning down an offer for something of yours, ask yourself how much you would pay to buy it.

$2.25 → $5.25

Buy

Sell

What the research says

Median price to buy and to sell the same mug (Kahneman, Knetsch and Thaler, 1990).

●●● **Solid evidence.** Thaler (1980) named it. It is usually explained by loss aversion.

Connections

Used in

- Product design

Related to

- Loss aversion
- IKEA effect
- Status quo bias

Authors and works

1980	**Richard Thaler**	Gave the effect its name.
1990	**Daniel Kahneman, Jack Knetsch and Richard Thaler**	Measured it in market experiments with mugs and pens.

Sources

Original sources

- Kahneman, D., Knetsch, J. L., & Thaler, R. H. (1990). Experimental tests of the endowment effect and the Coase theorem. Journal of Political Economy, 98(6), 1325–1348. View source (https://doi.org/10.1086/261737)
- Thaler, R. (1980). Toward a positive theory of consumer choice. Journal of Economic Behavior & Organization, 1(1), 39–60. View source (https://doi.org/10.1016/0167-2681(80)90051-7)

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