

This, then, is what we call arbitrary coherence. Initial prices are largely “arbitrary” and can be influenced by responses to random questions; but once those prices are established in our minds, they shape not only what we are willing to pay for an item, but also how much we are willing to pay for related products (this makes them coherent).

Now I need to add one important clarification to the story I’ve just told. In life we are bombarded by prices. We see the manufacturer’s suggested retail price (MSRP) for cars, lawn mowers, and coffeemakers. We get the real estate agent’s spiel on local housing prices. But price tags by themselves are not necessarily anchors. They become anchors when we contemplate buying a product or service at that particular price. That’s when the imprint is set. From then on, we are willing to accept a range of prices—but as with the pull of a bungee cord, we always refer back to the original anchor. Thus the first anchor influences not only the immediate buying decision but many others that follow.

We might see a 57-inch LCD high-definition television on sale for \$3,000, for instance. The price tag is not the anchor. But if we decide to buy it (or seriously contemplate buying it) at that price, then the decision becomes our anchor henceforth in terms of LCD television sets. That’s our peg in the ground, and from then on—whether we shop for another set or merely have a conversation at a backyard cookout—all other high-definition televisions are judged relative to that price.

Anchoring influences all kinds of purchases. Uri Simonsohn (a professor at the University of Pennsylvania) and George Loewenstein, for example, found that people who move to a new city generally remain anchored to the prices they paid for housing in their former city. In their study they found that people who move from inexpensive markets (say, Lubbock,