THE VALUE OF OWNERSHIP

This economics mind trick can improve your motivation

Vassilis Dalakas | 3 hours ago

The face of loss aversion. (Reuters/Navesh Chitrakar)

Last semester I experimented with a new idea in my consumer behavior class. I gave pop quizzes on the assigned readings but with a little twist.

First and foremost, students were not required to take the quizzes. But if they did take a quiz and they answered it correctly, they would earn a point. If they collected five points over the course of the semester, they would be able to opt out of the final exam if they chose.

There was one catch: if the students took a quiz and answered it incorrectly, then they would lose a point and fall behind in their effort to get to the magic number of five.

I had two different sections of the class, one with 35 students and the other with 27. The required effort in both classes was exactly the same (earn five points from the quizzes). The prize in both classes was also exactly the same (opting out of the final).

So, there should have really not been much of a difference between the two classes regarding their performance on the quizzes. Yet, there was a difference in performance. In fact, quite a substantial difference.

Fewer than half (43%) of the students in the first class ended up collecting the necessary five points. But, in the second class, a staggering 82% of the students did so.

Could it be that one class had better, more motivated students than the other?

I checked the final course grades for all students in both sections and the grade average for the two sections was almost identical.

So, what happened?

Difference between a loss and a gain

A subtle but key difference was in the way I presented the information about the quizzes and the prize of the optional final exam to the students.

Here is what I did:

In the first class, the students were told that the final exam was *required* but they could earn the right to not take it with five points from the quizzes.

In the second class however, they were told that the final exam was *optional*. But, they could lose that right if they did not get five points from the quizzes.

In other words, the exact same offer was presented either as a potential gain (earning the right to an optional final) or a potential loss (losing the right to an optional final).

This relates to the idea of "loss aversion"—i.e., the amount of pain we feel for losing something is higher than the joy we feel for gaining the same thing. For example, most people would be more upset if they lost a $20 bill than they would be happy if they found $20.

The value of ownership

So, in the case of my class, could it be that the increased value for these students was a function of them "owning" the prize they would lose?

Quite possibly, given that the concept of ownership has been shown to impact perceptions of value.

In a related study, behavioral economist Dan Ariely and marketing professor Ziv Carmon talked with Duke students who had won Final Four tickets in the lottery. They asked them how much it would take to sell their ticket.

They also contacted students who wanted to go the Final Four but did not win tickets in the lottery, asking them how much they would be willing to spend to buy one.

Students who had a ticket to the game agreed to sell it for an average price of $1,400, about eight times more than what students interested in buying were willing to pay ($170).

This is known as the "endowment effect," a concept introduced by behavioral economist Richard Thaler, which suggests that owners of an item evaluate it significantly more favorably than nonowners. This explains why people expect much more to give up an object than they are willing to pay to obtain it.

In a study using coffee mugs, marketing professor at Boston University Carey Morewedge and his colleagues suggested that ownership plays an important role in our perceived value of an item. Often, what we own has also sentimental value for us besides just its functional value.

Motivation in the classroom

As the semester ended, I shared with my students in both classes what happened and asked for their thoughts.

"I didn't want to give it up," said one student referring to having the right to the optional final. Other classmates nodded in agreement.

Given that ownership in this case was not about a tangible object, it is hard to imagine that the "endowment effect" was due to sentimental reasons. Yet, it was strong enough to affect the students' motivation and performance.

The fact that they had the right to an "optional final" made them perceive it as more valuable than their counterparts who did not have it. Consequently, it increased their motivation to do what was necessary to not lose it.

As "loss aversion" suggests, the disappointment for losing the optional final would have been higher than the excitement for earning it. The motivation of the students in the two classes seems to have been affected accordingly.

So, how can we use these findings to get our students more motivated?

Traditionally we use rewards to encourage desired behavior in the form of "if you do this, then you earn that." But by framing it this way, we may unintentionally devalue the reward and make students less likely to appreciate it.

Lack of ownership (even for nontangible objects) may lead to lower motivation.

Instead, what if we would offer the reward to everyone but then take it away from those who did not engage in the desired behavior? It seems a bit harsh, but it may also be more effective.

This post originally appeared at The Conversation. Follow

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POP QUIZ

Can you guess the banks behind these brutal earnings charts?

Jason Karaian | 5 hours ago

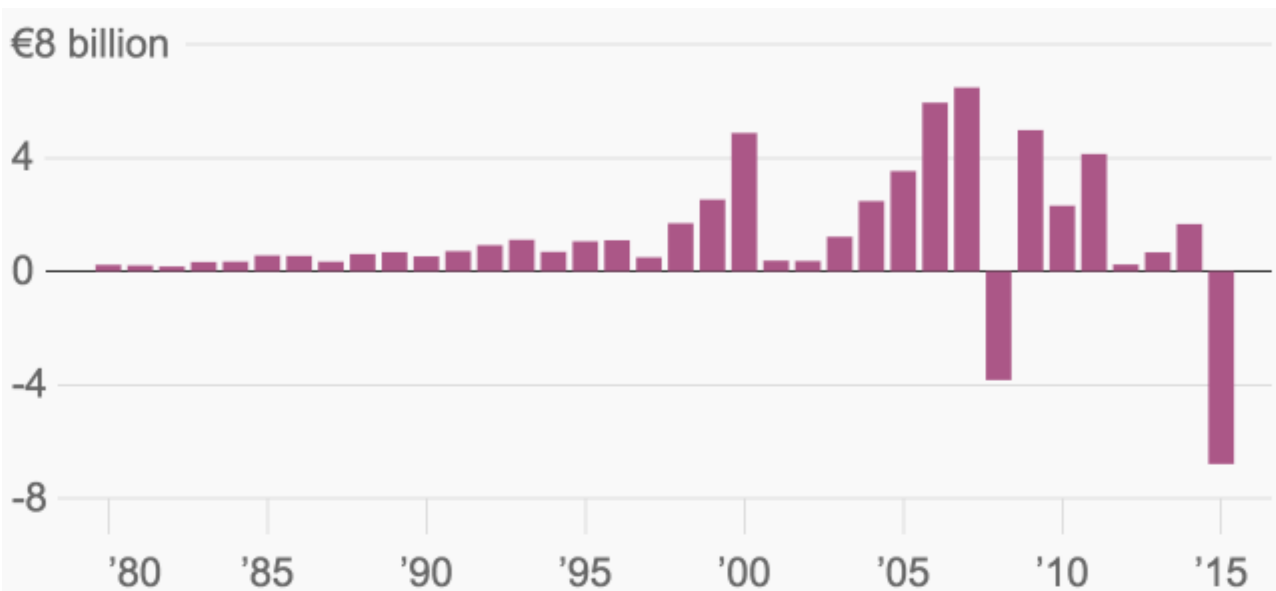
Do you work in banking? (Reuters/Susana Vera)

It's hard out there for European banks. In their home markets, economic growth is weak, unemployment is high, and interest rates are low (or even negative). On top of that, global markets are volatile, plunging energy prices are hurting big borrowers, and a slowing Chinese economy is putting a damper on just about everything.

This all adds up to subdued activity and sour loans, which has been reflected in some truly awful earnings reports. Indeed, shareholders have been horrified by some of the annual results released in recent weeks, dumping bank stocks in droves.

Quartz makes a lot of charts, and even we were taken aback by some of the truly gruesome graphs we've seen come across from banks of late. Below are three of the most horrific profit charts from the current earnings season. See if you can guess which basket case of a bank is behind each one. (Scroll to the bottom for answers.)

Bank 1: A lack of vision

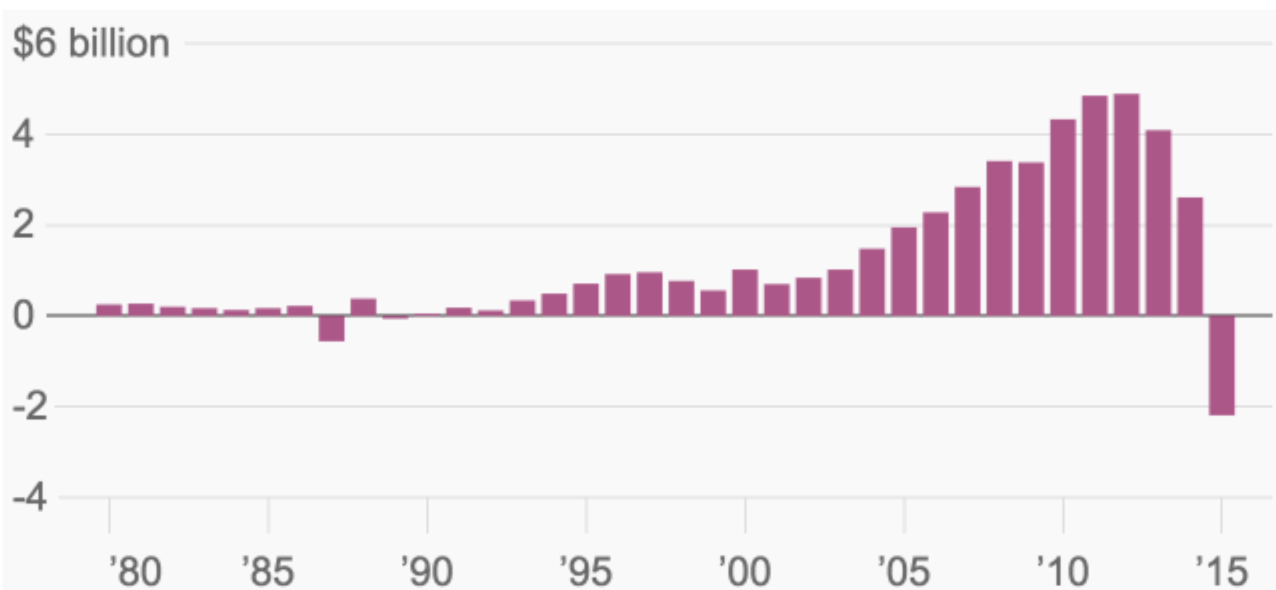


What happened? This bank posted a record loss in 2015 because of a jump in restructuring charges and more than doubling of litigation costs. The bank's shares have lost a third of their value so far this year, and at one point the markets forecast a one-in-four chance that it would default on its junior debt. Its current market value is only about a third of the book value of its assets, meaning that shareholders think more pain is in store.

What did the boss say? "It's hard to stand up and smile a lot and give much of a vision for a bank."

What did the analysts say? "Has the place been swept clean or is there still more to come? We need clarity on where earnings will come from."

Bank 2: Soul searching

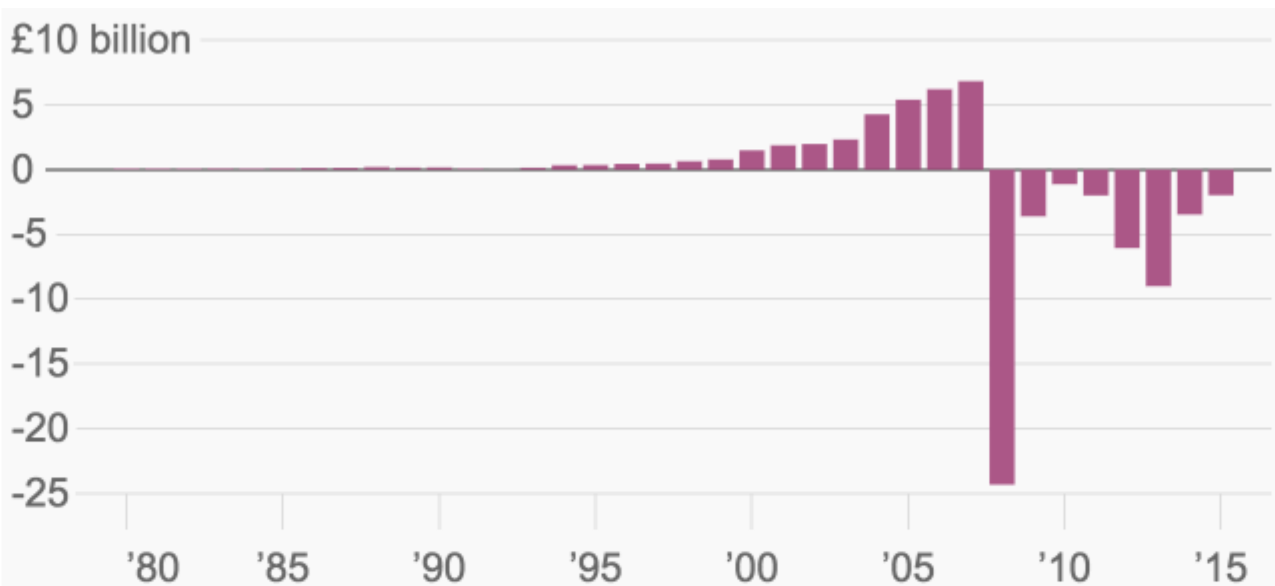


What happened? The bank's first annual loss since 1989 was thanks to worse-than-expected restructuring costs and loan impairments stemming from bad loans to energy companies and the reversal of an aggressive global expansion under previous management. In response to all the red ink, the bank's current CEO is considering clawing back bonuses previously awarded to 150 senior managers. The bank's shares have lost more than half their value over the past year.

What did the boss say? "It rips at our soul every time we look at these numbers and we don't ever want to have to stand up and tell this story again."

What did the analysts say? "Every line looks weak, with sizable revenue attrition, little evidence of cost savings and huge impairments."

3: Here we go again



What happened? The bank recorded its eighth consecutive annual loss in 2015, with charges related to restructuring, litigation, and impairments all moving in the wrong direction. Even the bank's long-suffering shareholders were surprised by the severity of its problems; the stock has lost a quarter of its value this year alone.

Making things worse from a PR perspective, a stock-based bonus from previous years recently vested and doubled the CEO's pay from the year before.

What did the boss say? "I've said before, and I will say it again, that this is a very, very complex process."

What did the analysts say? "Every year we hope that the time has come for the bank to turn a corner and every year we return disappointed."

⬇ Answers below ⬇

Have you made your guesses?

No peeking.

OK, here we go...

Bank 1: Achtung! It's Deutsche Bank

Bank 2: Standard Chartered 😱

Bank 3: The not-so-regal Royal Bank of Scotland