**Reference Prices**

**1. Definition and Types:**

* **Internal Reference Prices:** These are prices that consumers remember from past purchases or have in mind based on their knowledge and experience. It is a mental benchmark that they use to evaluate current prices.
* **External Reference Prices:** These are prices that consumers see in the marketplace, such as advertised prices, listed prices on shelves, or prices they encounter in other stores or online.

**2. Characteristics:**

* **Range, Not Exact Number:** Consumers typically have a range of acceptable prices for a product or service rather than a single specific price point. This range can vary based on individual experiences, frequency of purchase, and familiarity with the product category.

**3. Comparison Process:**

* Consumers compare observed prices (current prices in the market) with both their internal and external reference prices. This comparison influences their perception of whether a price is fair, a good deal, or overpriced.

**Impact of Reference Prices on Consumer Behavior**

**1. Unpleasant Surprises:**

* When the observed price is higher than the consumer's reference price, it can lead to an unpleasant surprise. This negative reaction is often stronger and has a more significant impact on consumer behavior than positive surprises. Consumers may feel a sense of loss or unfairness, which can lead to dissatisfaction, reduced likelihood of purchase, or negative word-of-mouth.

**2. Pleasant Surprises:**

* Conversely, when the observed price is lower than the reference price, it results in a pleasant surprise. While this positive reaction can lead to increased satisfaction and a higher likelihood of purchase, it generally has a less profound effect compared to the impact of unpleasant surprises. Consumers might perceive it as a good deal, but the emotional intensity is typically lower than that of a negative price discrepancy.