

You have not checked your share portfolio in a while. You expect it is worth around \$40,000. Today when you check, it is worth \$30,000. Do you feel rich or poor?

You have not checked your share portfolio in a while. You expect it is worth around \$20,000. Today when you check, it is worth \$30,000. Do you feel rich or poor?

$U(\$30,000)$

$U(\$30,000)$

$v(\$10,000)$  or  $v(-\$10,000)$

# Reference dependence

- The status quo
- Lagged consumption
- Goals
- Recent expectations







Sally and Trish both follow workout plans that usually involve doing 25 sit-ups.

One day, Sally sets a goal of performing 31 sit-ups. She finds herself very tired after performing 35 sit-ups and stops.

Trish sets a goal of performing 39 sit-ups. She finds herself very tired after performing 35 sit-ups and stops.