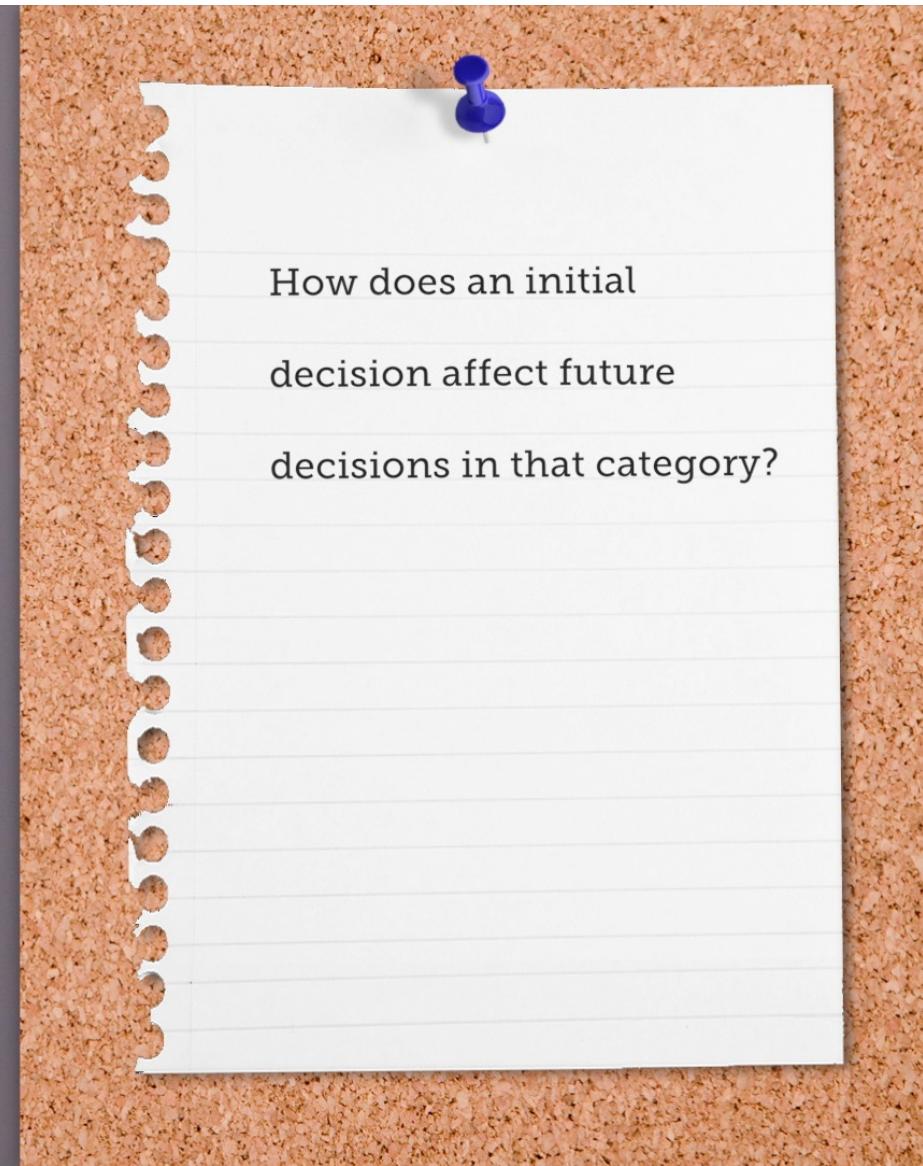


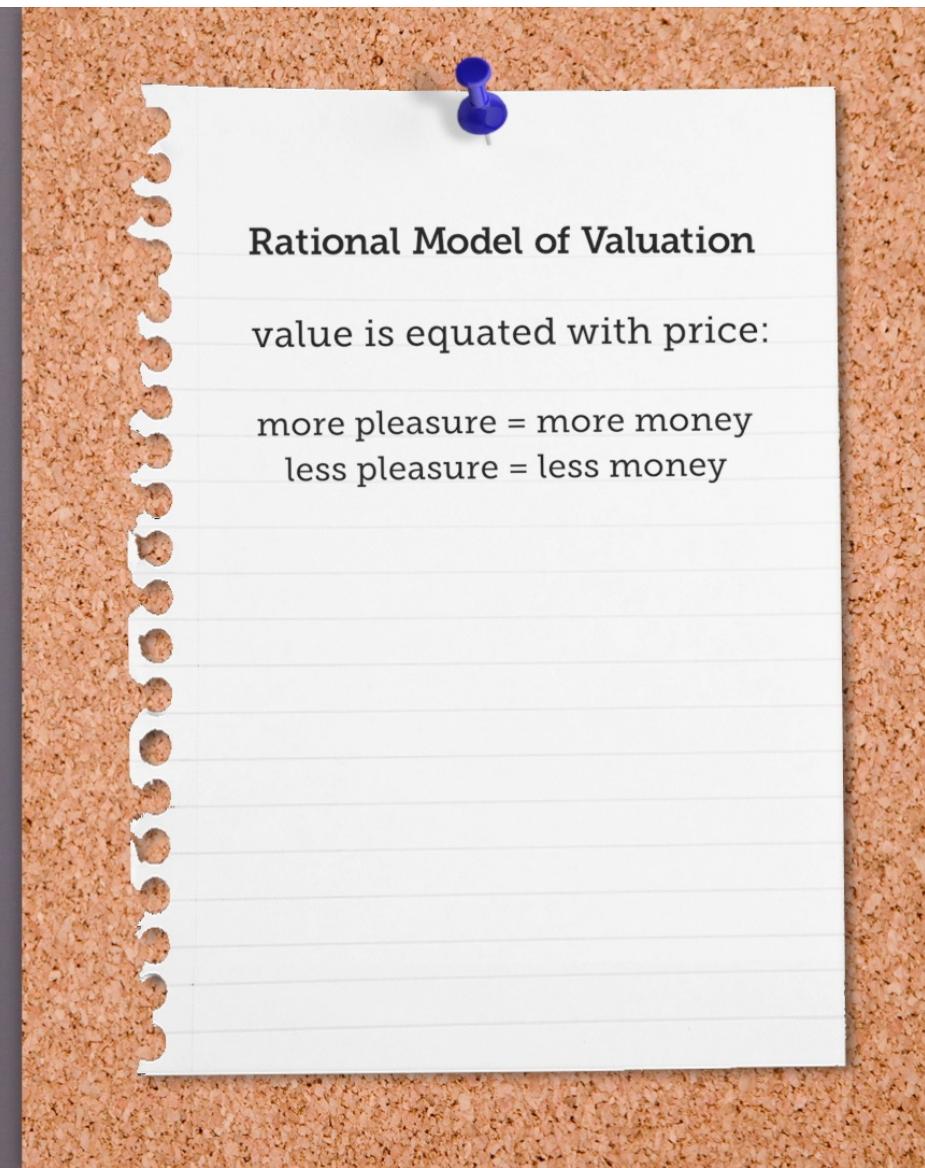
Part 5:

The Long-lasting Effects of Decisions



A close-up photograph of a woman's face in profile, facing right. She is wearing a white ribbed sweater and holding a white cup with a gold rim to her nose, as if smelling its aroma. A plume of light-colored steam or smoke rises from the cup towards the top left of the frame.

How should people set a value
on the price of coffee?



A large flock of white sheep is gathered in a field, filling the frame. They are all facing towards the right side of the image, showing their heads and ears. The background is a soft-focus view of more sheep.

What is herding?

Our instinct to follow others.

What is **self-herding**?

Our tendency to follow the same decisions we have made in the past (future decisions are influenced by previous decisions).





XXX-XX-XX 79

Products

Trackball mouse	\$79	X
Keyboard	\$79	✓
Cheap wine	\$79	X
Expensive wine	\$79	✓
Design book	\$79	X
Chocolates	\$79	X



People do not think that their
valuations are influenced by
the arbitrary number.

But they are!

Auctions of Real Products

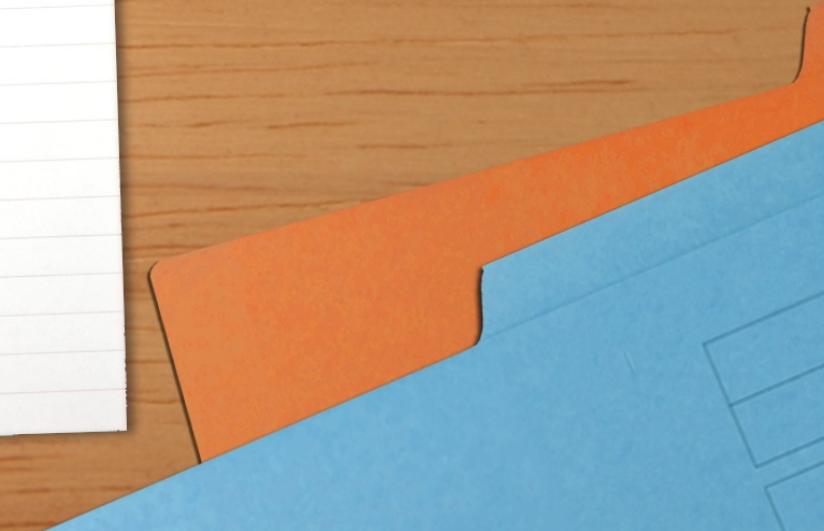
	item	low ID # avg. bid	high ID # avg. bid	increase
trackball		\$10.38	\$21.52	107%
keyboard		\$21.81	\$42.03	93%
\$9 wine		\$11.62	\$19.55	68%
\$82 wine		\$17.42	\$27.76	59%
design book		\$14.15	\$23.00	62%
chocolates		\$10.04	\$16.24	62%

Once a particular number
is introduced, it becomes
the reference point from
which prices are judged
(the "anchor").



relative comparisons of products
in the same category remain fixed





The first decision becomes
an anchor that influences
future decisions.

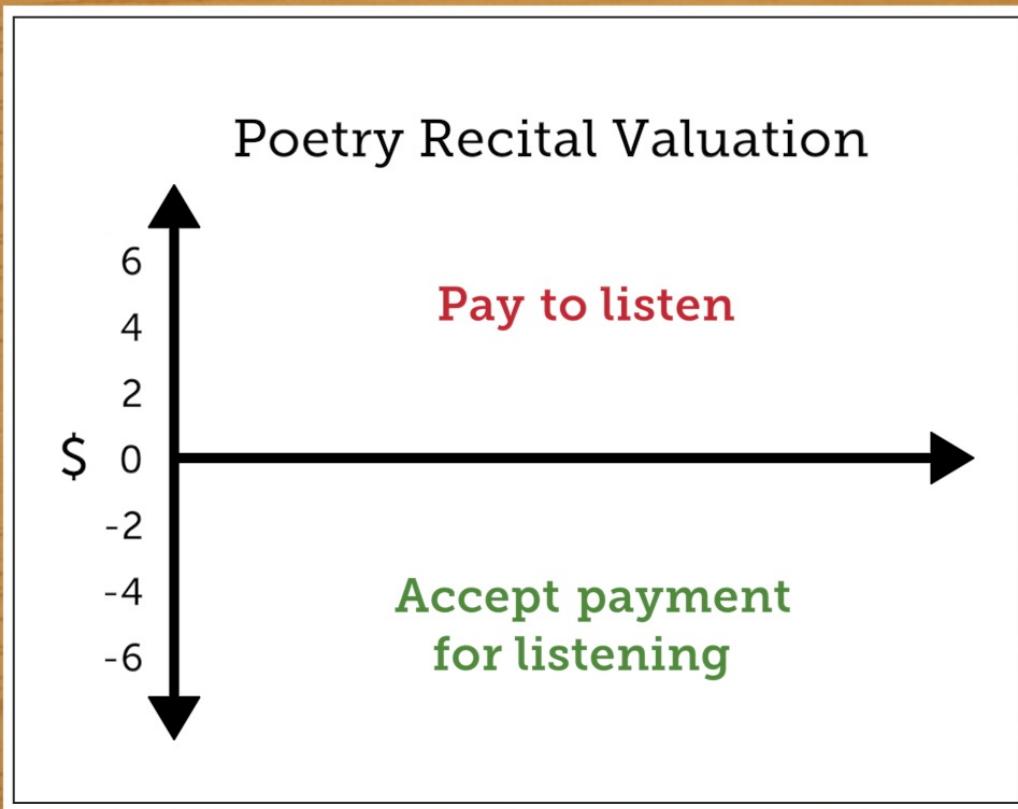
Mark Twain showed how the exact same experience can be regarded as good or bad, depending on how it is presented, or framed.

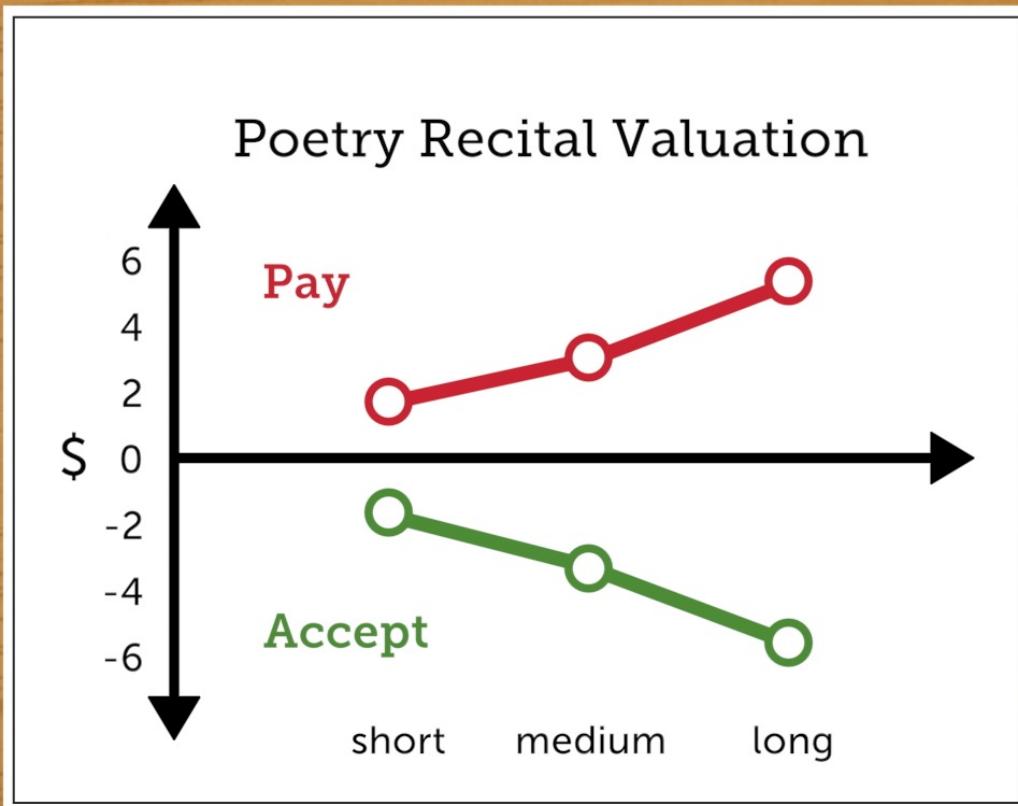
Because our pre-existing preferences are often undefined, value can be constructed through arbitrary influences.





Even going to jail can
look like a vacation.







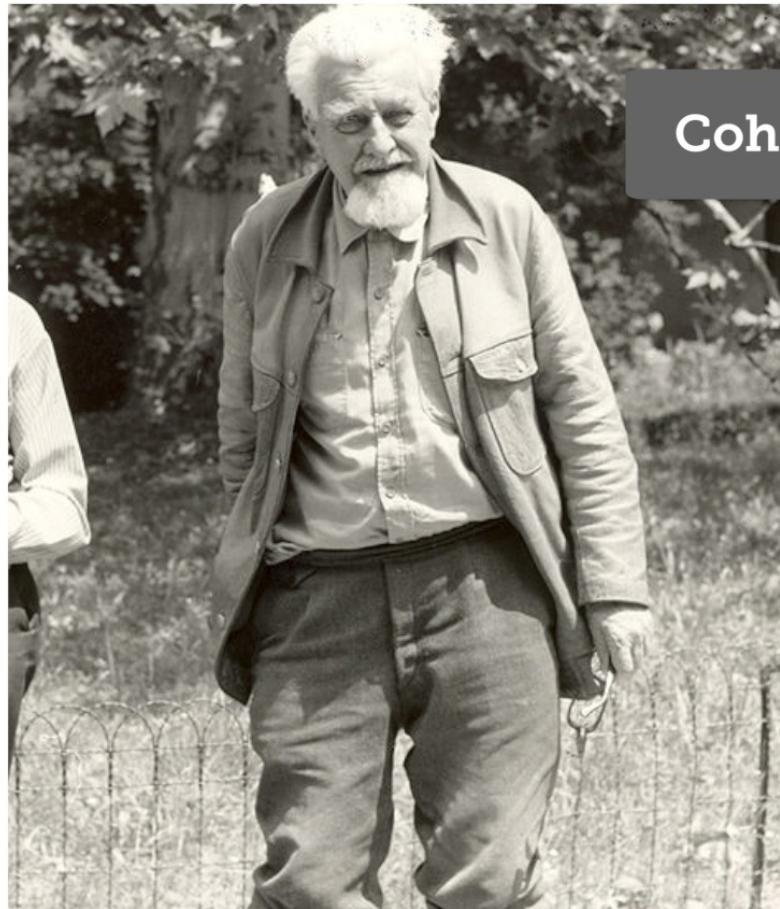
Starbucks has worked to
differentiate its brand.

We make comparisons
within (not across) categories.



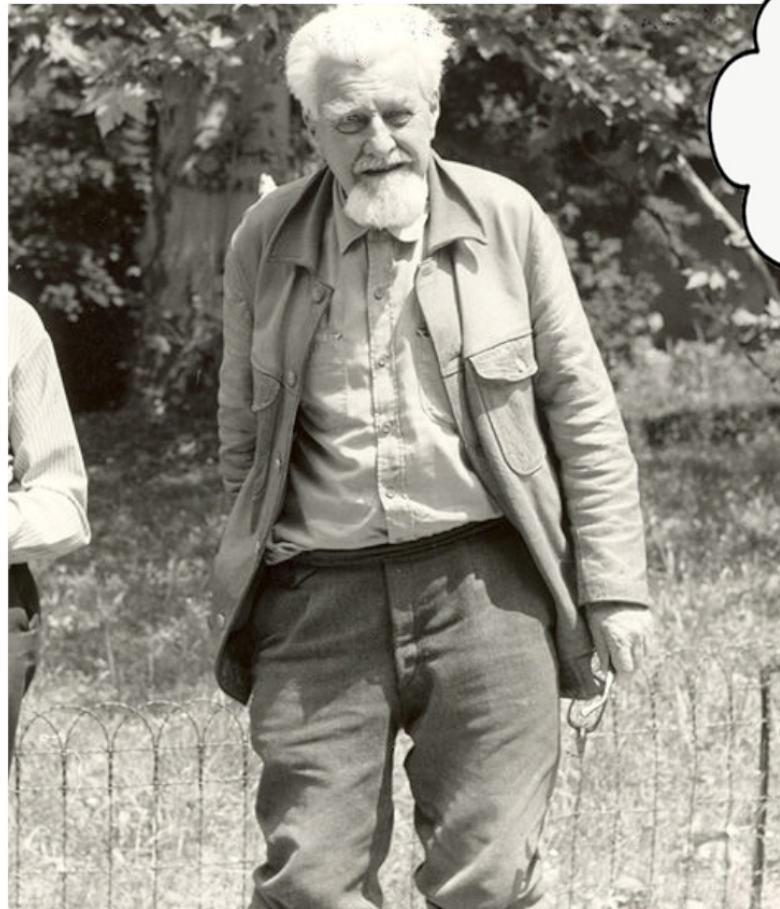
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Coherent Arbitrariness



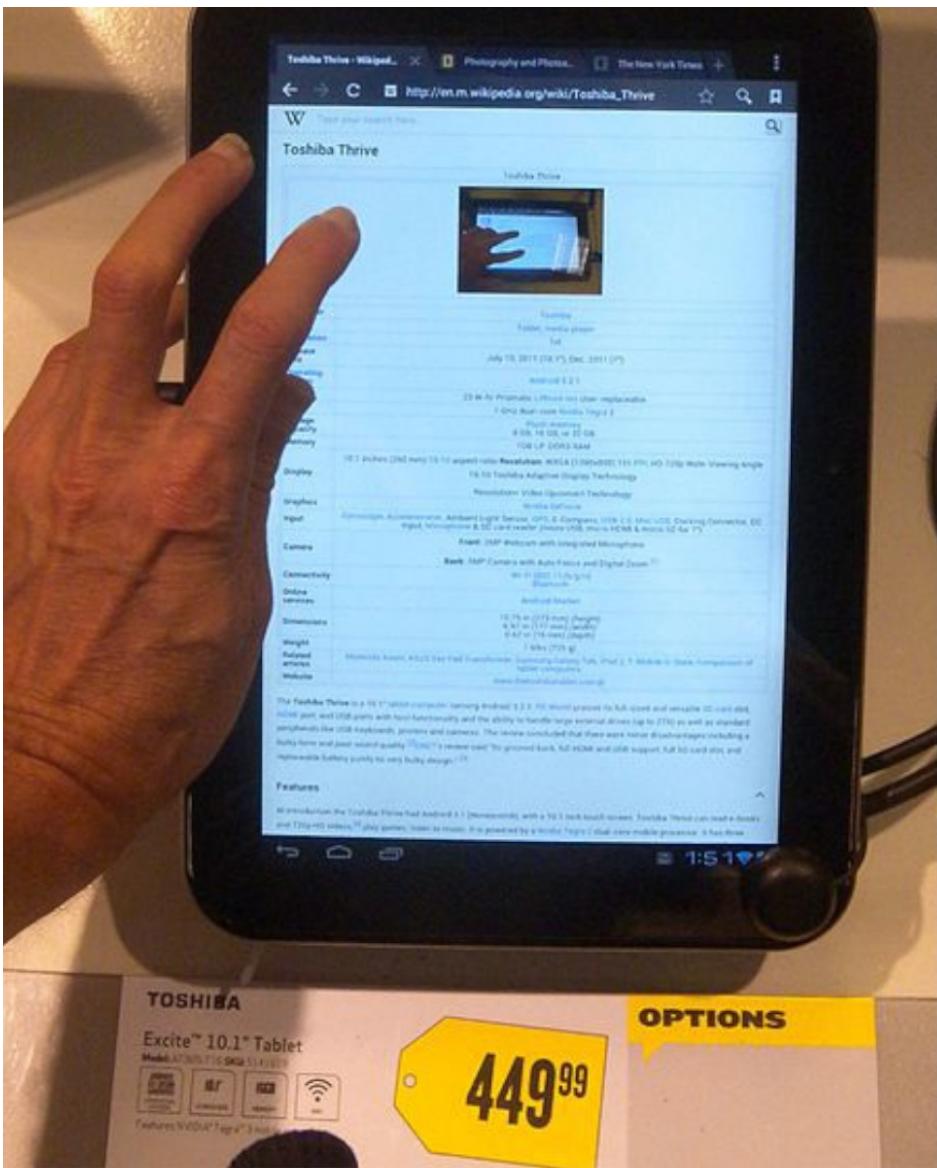


Mama!





The iPad is priced relative
to the iPhone.



All other tablets follow
iPad pricing.

