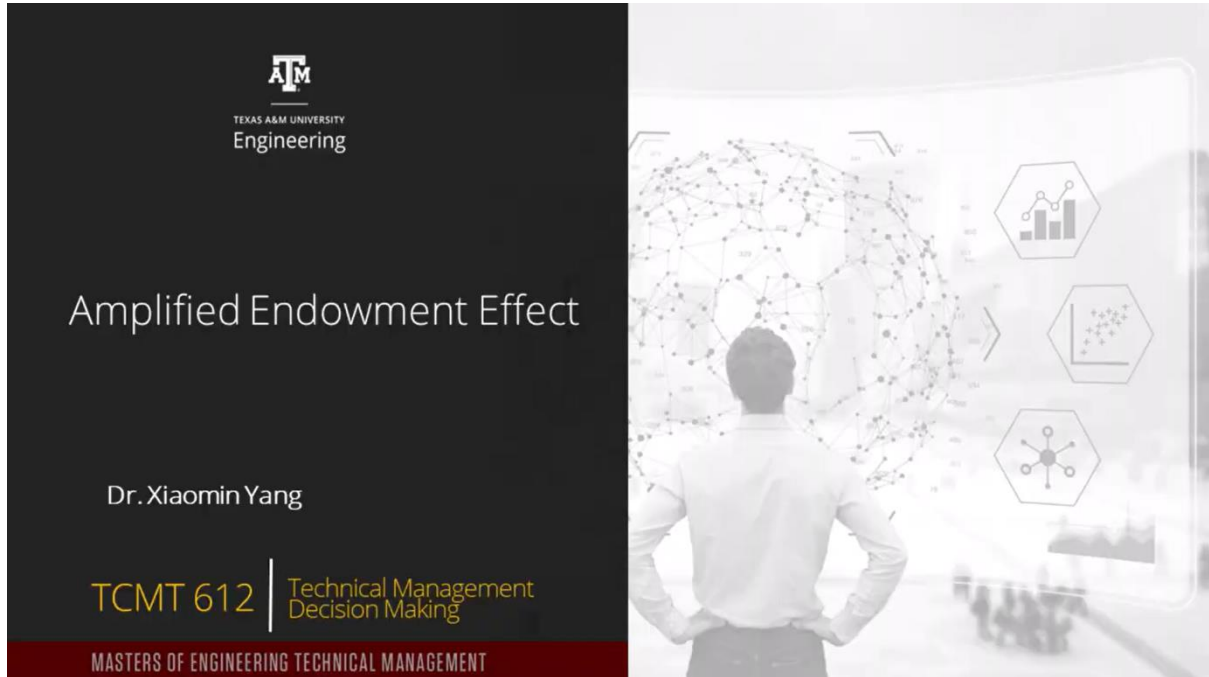


# M2L13. Amplified Endowment Effect

## Slide #1



The slide cover is divided into two main sections. The left section is a dark grey rectangle containing the Texas A&M University Engineering logo at the top, followed by the title 'Amplified Endowment Effect' in white, the presenter's name 'Dr. Xiaomin Yang', and the course information 'TCMT 612 | Technical Management Decision Making' in yellow and white. A red banner at the bottom of this section reads 'MASTERS OF ENGINEERING TECHNICAL MANAGEMENT'. The right section is a light grey image showing a person from behind, looking at a large, curved screen. The screen displays a complex network diagram of interconnected nodes and lines, along with several hexagonal icons containing various symbols like a bar chart, a line graph, and a network diagram.

In this topic, we will discuss the amplified endowment effect.

**Slide #2**

Owners' tendency to overprice  
amplified for specialty items.

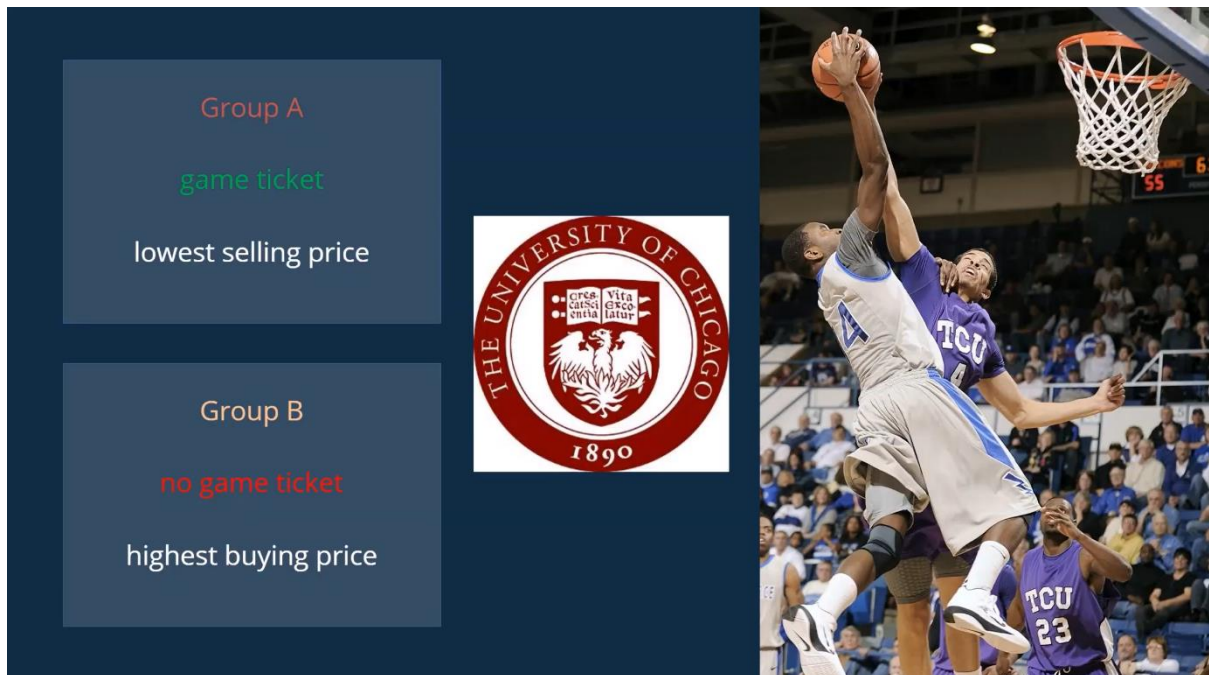
Because emotional attachment  
to those unique items  
is stronger.



The owner's tendency to overprice is amplified for special items that they own.

The seller's emotional attachment to those unique items is stronger.

### Slide #3



In 1999, a University of Chicago MBA student did an experiment and chose two groups of students who were Michael Jordan's fans.

The business school gave each student in group A a ticket to a Chicago Bulls game, but the students in group B did not receive tickets.

The students in group A were asked to name the lowest price they wanted to accept for the ticket.

They also asked students in group B the highest price they were willing to pay for a ticket.

#### Slide #4

### Outcome of Experiment

Price that Group A demanded

about 6 x

what Group B was willing to pay.



The outcome of the experiment showed that the students in group A wanted at least 1,900 dollars for a ticket on average, but the students in group B only offered 330 dollars on average.

The price that Group A students demanded was about six times what Group B students were willing to pay.

#### Slide #5

### Commodity

Sellers' asking price 2x buyers' price

### Special item

Sellers' asking price >5x buyers' price

Companies selling differentiating products must consider amplified endowment effect acquire new customers for unique product price customers are willing to pay significantly less than companies want.



For the commodity type of goods, the seller's asking price is about twice what the buyers are willing to pay.

But for a special item, the seller's asking price is more than five times what the buyers are willing to pay.

In practice, the companies that are selling differentiating products must consider an amplified endowment effect while trying to acquire new customers for their unique product, since the price that new customers are willing to pay can be significantly less than the price that the companies want.

### **Slide #6**

Endowment effect for intangible property is a magnitude higher than tangible asset.



Mindful and thoughtful about endowment effect when making decisions about price of consulting service, engineering service, other intangible assets.

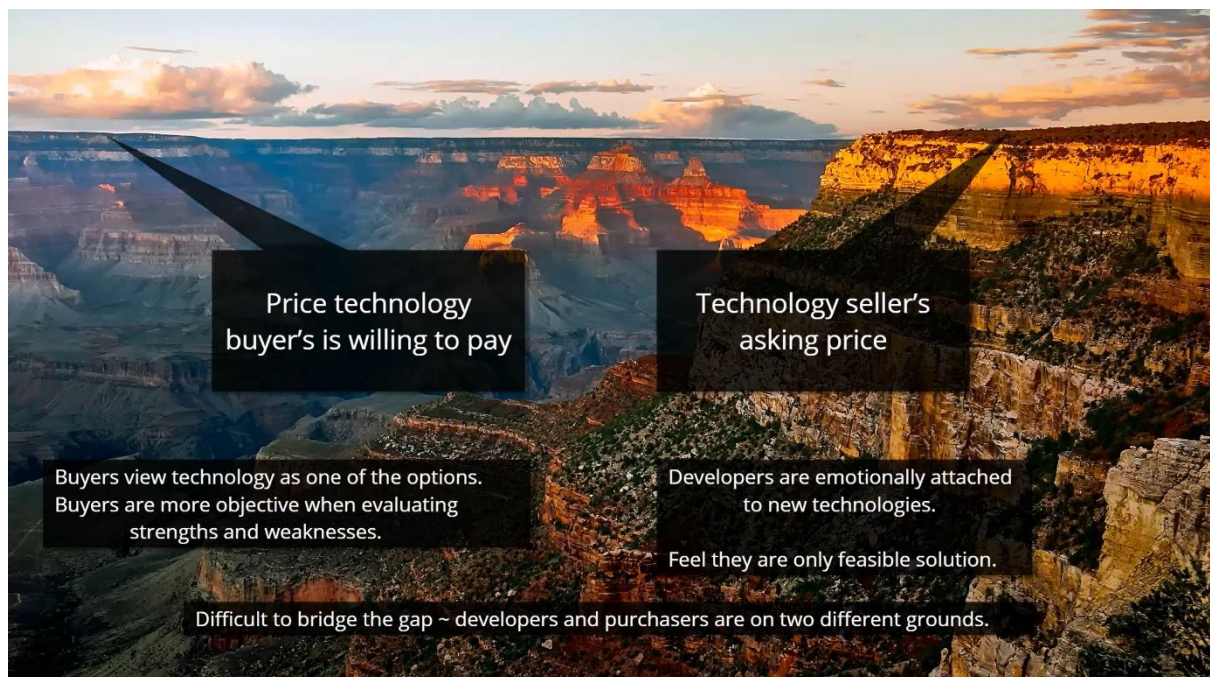
The endowment effect for intangible property is a magnitude higher than that for a tangible asset.

The intangible assets include consulting services, engineering services, new technologies, and intellectual property.



So you need to be very mindful and thoughtful about endowment effect when you make decisions about the price of consulting services, engineering services, and other intangible assets.

### **Slide #7**



The gap between technology sellers asking price and what we are willing to pay is as wide as the Grand Canyon.

Developers are emotionally attached to new technologies and inevitably feel that their technologies are the only feasible solution.

But the buyers have different perspectives.

The buyers view the technology as one of many options we can acquire from the market.

We are more objective when evaluating the strengths and weaknesses of each technology and each option.

It is very difficult to explain the logic and bridge the gap because developers and purchasers are on two different grounds.