When dollars don’t make sense: When and why “reasonable” willingness-to-pay can lead us astray

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Abstract

Marketing researchers often rely on willingness-to-pay (WTP; the highest amount a consumer states that they would pay for a given product) as a measure of consumer valuation. I present two projects exploring when and why relying on WTP can be problematic. In the first project, I investigate a well-studied phenomenon in which consumers report lower WTP for uncertain prospects than their worst possible outcomes (the uncertainty effect; Gneezy, List & Wu 2006). Previous researchers assumed that this phenomenon demonstrated that consumers can be irrationally risk averse. Challenging this assumption, I propose and present evidence that WTP instead reflects a lower perceived market price rather than hyper risk aversion. In the second project, I delve into one common reason that WTP can lead us to faulty inferences: Participants often interpret WTP measures as asking for a “reasonable” price rather than a statement of personal value. I offer one simple remedy for making WTP more interpretable as a measure of personal preference and valuation.