

Dissertation abstract: The effect of involvement, time, and vividness on consumers' value judgments: A test of prospect theory

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Received: 6 November 2005 / Accepted: 14 November 2005
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Abstract The literature in psychology and behavioral economics offers abundant instances of anomalies to the rational choice paradigm. One of the most prominent works attempting to reconcile these is Kahneman and Tversky's Prospect Theory. Its well-known S-shaped value function accounts for some of the anomalies such as *reference dependence*, *loss aversion*, and *diminishing sensitivity*. Although Prospect Theory describes the manner in which individuals are loss averse, it does not explain *why* people show loss aversion. This dissertation investigates the factors that affect the cognitive processes behind loss aversion. We find an anomaly in the S-shaped value function. Specifically, the studies demonstrate that the degree of involvement affects the slope of the value curve both for atemporal and intertemporal choices. In addition, we also test the relationship between loss aversion and involvement with varying vividness of outcomes (i.e., when outcomes are related to more versus less vivid stimuli). Testing the vividness effects further extends and confirms our proposed relationship between involvement and loss aversion.

The data from several experiments show that there is a difference in the slopes of the value function for low and high involvement decisions. For low involvement conditions, the value curve has roughly the same steepness for losses as for gains close to the neutral reference point (i.e., contrary to the *diminishing sensitivity* characteristic). By contrast, in the high involvement conditions this is not the case: there is a distinct difference in the slopes of the loss and gain curves. This leads us to propose that different value functions exist for people in the low and high involvement conditions. This important finding suggests that in cases where people are not highly involved with a product, they display significantly less loss aversion than predicted by Prospect Theory.

Three experiments investigate the relationship of loss aversion to subjects' level of involvement in atemporal choice, intertemporal choice, and differential vividness of stimuli situations, respectively. The first study uses a 2 (involvement: low and high) by 2 (outcome:

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gain and loss) between subjects design. The results show that loss aversion significantly attenuates in the low involvement condition for atemporal choice.

Study two replicates the results of study one in the context of intertemporal choice, where timing of outcomes (now versus three months) is introduced as another factor.

Finally, the third study manipulates the vividness of outcomes and finds an interaction effect of vividness and involvement on loss aversion.

Keywords Loss Aversion · Prospect Theory · Consumer Involvement · Intertemporal Choice · Vividness

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