

Dissertation Proposal

Yang Yang

Essays on Uncertainty and Hedonic Adaptation

Thursday, April 17, 2014
10:00am
324 GSIA

My dissertation studies two important concepts in marketing and consumer behavior: uncertainty, hedonic adaptation, and the relationship between the two. It consists of three essays.

The first essay studies how framing influences consumers' willingness to pay (WTP) and willingness to accept (WTA). We show that consumers are willing to pay substantially less for a risky prospect when it is called a "lottery ticket," "raffle," "coin flip," or "gamble" than when it is labeled a "gift certificate" or "voucher." WTA, in contrast, is not affected by these frames. This differential framing effect is the result of an aversion to bad deals, which causes buyers to focus on different aspects than sellers. WTP is influenced by the extent to which a risky prospect's frame is associated with risk as well as the prospect's lowest (but not highest) possible outcome. WTA, in contrast, is influenced by a prospect's lowest and highest possible outcomes but not by the risk associated with its frame. The framing effect on WTP is independent of the objective level of uncertainty and can lead to the uncertainty effect. The findings have important implications for research on risk preferences and marketing practice.

The second essay introduces the idea of sentimental value (i.e., the value derived from positive associations with a person or entity or with an event or time in one's life) and demonstrates how this non-feature related utility influences hedonic adaptation. We propose that sentimental value slows, and in some cases even eliminates, hedonic adaptation. This effect is caused by the fact that happiness is a weighted sum of feature related utility and sentimental value, and that the higher sentimental value a product has, the lesser influence the feature-related utility has on happiness. Because the utility that consumers derive from the features of a product decrease with time, but sentimental value does not, sentimental value acts to buffer the decrease feature related utility on happiness with time. This research contributes to the literature on hedonic adaptation, sentimental value and consumer well-being.

The third essay studies the relationship between uncertainty and hedonic adaptation. Consumers believe that they will be better off when they are assured that they will always have positive experiences than when they are uncertain whether their current positive experiences will persist. Contrary to this belief, we instead propose that consumers in the latter case can actually be better off, because the uncertainty about the valence of individual experiences in a sequence of experiences affects the rate of hedonic adaptation. Holding the actual valence of all components in a sequence of experience positive, when consumers are unaware of whether each of these components will be positive or negative, they tend to adapt to the sequence slower than when they are aware that the sequence is going to be uniformly positive. We further propose that this effect is driven by the mitigating role that happiness with acquisition (as opposed to happiness with consumption) plays in slowing hedonic adaptation. This research has theoretical implications for understanding hedonic adaptation and practical implications for increasing consumer happiness.