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SATISFACTION AND DISAPPOINTMENT IN CONSUMER CHOICES – AN EXPERIMENT

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This article investigates the role that emotions play in economic decisions. In a computer-based experiment, our participants were the consumers of a fictitious service bearing resemblance to what the mobile phone operators offer. In each of 17 rounds, a participant had to choose between retaining the current supplier or changing it with a competitor, based on information about expected and actual prices to be paid. We recorded participants' self-assessed satisfaction or disappointment on a psychometric scale. Logit models are used to explain and predict individual choices based on prices, previous decisions, and emotions. Our findings show that the prediction of choice is significantly better if information about the participants' emotions is considered. We analyse how disrupted satisfaction treadmills make people feel disappointed at the face of financial discount, and mildly satisfied, when they have to pay more than expected.

1. Introduction

Over the last decades, plenty of empirical data have exposed the vulnerability of Homo Economicus as a realistic model for economic decision making. One after another, the tenets of rationality have become problematic, which has led to the creation of more sophisticated postulates and more refined empirical studies. The latter have focused primarily on two areas – quantitative analysis of consumer behaviour databases, and experimenting in laboratory conditions.

Both areas have the same foundation – people's thinking about their own utility, perhaps connected with the economy in general. The individual does not relate prices to production costs, scarcity, and market structures, but simply to

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ethics: whether a price is fair or not. Depending on the answer, one responds with positively or negatively valenced emotions affecting one's final decision as a consumer or businessperson. Gradually, economists begin to acknowledge the existence of causal links between expectations, prices, emotions, and economic choices.

Although 'emotion' is not a term in economics, that science has dealt with emotion in various ways. A number of studies have used psychophysiological proxies for it such as heart rate, skin conductance, and blood pressure both in laboratory (Smith and Dickhaut, 2005) and real market experiments (Lo and Repin, 2002). Likert-type scales for self-assessed feelings in economic circumstances are very popular – a 1999 study counted more than 90 of them (Larsen and Frederickson, 1999). These techniques are also the most easily accepted in traditional economic analyses (Frey and Stutzer, 2005; Bosman and Riedl, 2003; Elster, 1998). One idea, perhaps closest to emotional response, has been the concept of consumer price sensitivity (Kim et al., 1995). According to it, the purchase motivation is unique for each consumer and depends nonlinearly on the difference between expected and actual prices of a product. This insight has been included in complex marketing models with demographic and personality attributes, some used even in multi-agent computer simulations (Zhang and Zhang, 2007). Finally, neuroeconomics is beginning to discover how brain regions and systems interact when a person thinks about economic decisions (Camerer et al., 2005), and is already offering psychophysiological interpretations to established theories of decision making (Trepel et al., 2005; Knutson and Peterson, 2005).

It is not yet clear how exactly the emotions interfere with economic decisions. One research direction is to study the instances of inconsistent behaviour in experiments with repeated choices (see a review by Rieskamp et al., 2006). A mechanism possibly contributing to the choice variation there is the hedonic or satisfaction treadmill (Kahneman, 1999). This is the adaptation to a positive or negative trend in a process causing diminished emotional response, eventually ending in indifference. It is natural then that repeated choices are made with evolving moods and need not be the same, either for participants in experiments or for consumers in markets. A number of interesting phenomena can be observed in such studies.

This paper presents a laboratory experiment about consumer decision making. It is computer based and investigates the links between (1) economic expectations, monetary outcomes, and the disappointment or satisfaction they provoke, and (2) the emotional responses and decisions to retain or abandon a supplier of a fictitious service. The experiment was conducted in May 2007 and involved 129 students of economics from Sofia University. Its content bore resemblance to the Bulgarian market of mobile phone services where two leading providers offered indistinguishable quality and prices at the time of the study. However, similarities to other markets in other countries could be relevant as well.

In the experiment, a participant received a service from one of two suppliers. In each round, the current supplier announced an advertised price, which served as orientation about what actual price could be expected. The latter was