

Kahneman, D., Knetsch, J. L. and Thaler, R. H. (1990). Experimental tests of the endowment effect and the coase theorem. Journal of Political Economy

Repeated Market Experiment

In this market the objects being traded are tokens. You are an owner, so you now own a token [You are a buyer, so you have an opportunity to buy a token] which has a value to you of \$x. It has this value to you because the experimenter will give you this much money for it. The value of the token is different for different individuals. A price for the tokens will be determined later. For each of the prices listed below, please indicated whether you prefer to: (1) Sell your token at this price and receive the market price. [Buy a token at this price and cash it in for the sum of money indicated above.] (2) Keep your token and cash it in for the sum of money indicated above. [Not buy a token at this price.] For each price indicate your decision by marking an X in the appropriate column.

Part of the response form for sellers follows:

At a price of \$8.75 I will sell _____ I will not sell _____
At a price of \$8.25 I will sell _____ I will not sell _____

You now own the object in your possession. [You do not own the object that you see in the possession of some of your neighbours.] You have the option of selling it [buying one] if a price, which will be determined later, is acceptable to you. For each of the possible prices below indicate whether you wish to: (1) Sell your object and receive this price [Pay this price and receive an object to take home with you] or (2) Keep your object and take it home with you. [Not buy an object at this price.] For each price indicate your decision by marking an X in the appropriate column.

Testing for Misrepresentation

After you have finished, one of the prices listed below will be selected at random and any exchanges will take place at that price. If you have indicated you will sell at this price you will receive this amount of money and will give up the mug; if you have indicated that you will keep the mug at this price, then no exchange will be made and you can take the mug home with you.... Your decision can have no effect on the price actually used because the price will be selected at random.

You now [do not] have, and own a mug which you can keep and take home. You also have the option of selling it and receiving [buying one to take home by paying] money for it. For each of the possible prices listed below, please indicate whether you wish to: (1) Receive [pay] that amount of money and sell your [buy a] mug, or (2) Not sell your [buy a] mug at this price.

After you have finished, one of the prices listed below will be selected at random and any exchanges will take place at that price. If you have indicated you will sell [buy] at this price you will receive this amount of money [a mug] and will give up the mug [pay this amount of money]; if you have indicated that you will keep the [not buy a] mug at this price then no exchange will be made and you can take the mug home with you [do not pay anything].

Experimental tests of the endowment effect and the coase theorem

Notice the following two things: (1) Your decision can have no effect on the price actually used because the price will be selected at random. (2) It is in your interest to indicate your true preferences at each of the possible prices listed below.

For each price indicated your decision by marking an X in the appropriate column.

	I Will Sell [Buy]	I Will Keep [Not Buy] the Mug
If the price is \$0	_____	_____
If the price is \$0.50	_____	_____
.		
.		
.		
If the price is \$9.50	_____	_____