

Discussion on Anchoring Effect in Our Real Life

Zhenghua Yue

College of Alameda, Alameda 94501, America.

3527959801@qq.com

Abstract. This paper first introduces the anchoring effect through the introduction of a story and its background. Then, it discusses in detail the definition of anchoring effect, its importance to family, business and society, the attitude and methods that should be adopted to deal with it and its applications in our real life. Among them, this article focuses on the impact of anchoring effect on negotiations, court judgments, auto exhibitions and markets. The anchoring effect will largely affect the outcome of the negotiation, or the outcome of the court judgment, and then affect our real life. It is worth noting the impact of the anchoring effect on the aggregate demand and aggregate supply curves, which will subvert the theory of traditional economics.

Keywords: Business negotiation; An initial value; being more picky; Enterprise; demand and supply curve; Law court; marketing.

1. Introduction

As is known to all, a ship on the sea is always accompanied by an anchor on the sea. And the anchor is used to stabilize the ship and ensure its safety. Obviously, this anchor has a great effect on the ship. From this, we can further think of our actual life. Here will start with a story.

A car salesman tried to sell a Ford for \$20,000. When customers came in, they decided they liked the car and were willing to pay up to \$15,000. After discussing the details of the car, the salesman offered the customer \$22,000. Customers hear about \$22,000 thinking "Oh, this is beyond my price range". But at the same time, however, customers valued the car at \$22,000. Seeing the customer thinks the price is too high, the salesman said at once "We can make a deal specifically for you, and if you buy it today, we can drop it to \$19,000." "It was a good deal, and it was slightly beyond my price range, but I couldn't miss the offer, " and the customer went back.

Thus, let's think about and analyse this question. If the salesperson said at the beginning, "This car sells for \$20,000 dollars," would the customer still buy it? Why did his initial \$22,000 make it easier for consumers to consume? So here, \$22,000 is the anchor. Since consumers expect a price set at \$22,000, any price below that price seems to be a good deal.

Negotiation is a good example of an anchoring effect. Usually, we tend to wait for the first offer. However, it turns out that this actually affects the negotiations. Studies show that in cases of ambiguity and uncertainty, the first quotes have strong anchoring effects - they all have a strong appeal in the rest of the negotiations. In other words, the first offer laid the foundation for reasonable negotiation. Higher first offers are more likely to lead to higher sales prices than lower first offers.

2. Definition

"In many situations, people make estimates by starting from an initial value that is adjusted to yield the final answer. The initial value, or starting point, may be suggested by the formulation of the problem, or it may be the result of a partial computation. In either case, adjustments are typically insufficient. That is, different starting points yield different estimates, which are biased toward the initial values. We call this phenomenon anchoring." (Tversky & Kahneman, 1974) Here are three specific definitions of anchoring.

2.1 Inadequate adjustment

Inadequate adjustment means that when people estimate a certain value, they will be affected by certain starting values and make inaccurate estimates.

2.2 Estimation bias in consecutive and independent events.

It is believed that people prefer to overestimate the probability of continuous events and underestimate the probability of independent events.

2.3 Estimation bias of the subjective probability distributions.

This means that when people estimate the confidence interval of a certain value, this mental confidence area is often too narrow.

3. Significance

3.1 Personal life level

Love relationship - for example, if your ex-boyfriend/girlfriend is excellent, then maybe your criteria for finding a partner will rise, and you will become more picky. Meeting with strangers –the first impression is important. Take students with good academic performance or colleagues with outstanding work performance as our own reference.

3.2 Enterprise level

When enterprises want to develop new products, they should take similar related products in the market as references.

The negotiation of salary in the workplace, and the negotiation with customers to constantly test the bottom line of them.

3.3 Society level

Changing the "Supply Demand" Economic Relationship. Traditional economics assumes that the market price of a product depends on the balance of two forces: the output (supply) of each unit price and the purchase desire (demand) of each unit price. The price at the intersection of these two forces determines the market price.

This theorem has the premise that demand and supply should be independent. (Tencent News 2021)

However, the reality is that people's needs are often constrained by other factors. For example, anchoring effect - consumers are affected by the "anchor" set by the supplier (manufacturer), like suggested retail price, advertising promotion price, product promotion, etc.

From this point of view, it seems that it is not the purchase intention of consumers that affects the market price. The causal relationship is somewhat reversed. It is the market price itself that affects the purchase intention of consumers.

3.4 Ways to deal with it

First of all, we can use the "anchoring effect" to apply it to work and study, so as to make ourselves more motivated and hardworking. Secondly, we can apply it to our work and life to maximize our economic benefits. How can we avoid the adverse "anchoring effect"?

Multi-angle and multi-dimensional thinking can reduce the information difference that will affect the decision you are going to make - the more information, the better; the newer, the better.

In the process of action, it is important to adjust the strategy in a timely manner according to the most authentic feedback. In the process of action, you cannot be limited to your cognition before making decisions, even if it is the information, you have collected recently.

Because those views are relatively old in the face of the real situation, we must make our own judgments according to the actual situation.

4. Applications

4.1 Law court

We often see judges make different judgments for almost the same crimes. The difference can be years or millions of dollars. The reason is related to anchoring deviation. When a preliminary request or recommendation is made for sentencing, it will have an impact on the final decision of the judge. In fact, a paper by Eyal Peer and Eyal Gf found that judges are vulnerable to judgments recommended or requested by prosecutors. Further research by Birte English and Thomas Mussweiler shows that when faced with unrealistic high sentencing options, they will be sentenced to longer sentences. The study also found that even more, experienced judges are vulnerable to anchoring bias. Therefore, the main conclusion we can draw is that even if other information is available, judges and others are easy to be anchored. Their bias in the hearing process includes confirmation bias, hindsight bias and the conjunction fallacy. As for the biases in the ruling process, the inability to ignore inadmissible evidence and the biased decisions in the sequential ruling. What is worth mentioning is that the biases in the sentencing process include modeling sentencing decisions and anchoring and adjustment. (Heuristics and Biases in Judicial Decisions)

4.2 Car exhibition

A common method in exhibition halls is to put the most expensive and attractive cars at the front. This will not only attract customers, but also let them see the highest price point first. This is crucial! When customers come in, they may see a \$40000 luxury car. The price is beyond their scope, but it is anchored. By contrast, other cars seem to be cheaper. On the contrary, the higher the anchor price, the stronger the people's willingness to pay. By contrast, showing customers the cheapest car when they come may mean they buy it. The initial price of the "anchor" car is \$20000, which will reduce the willingness of consumers to pay. This is because it is set as an anchor point and all other vehicles are used for comparison

4.3 Marketing

Anchor bias in marketing and advertising is a key tool to increase sales. There are a number of key techniques for utilizing anchoring bias. The first is to artificially raise the product price, but often "discount". Many grocery stores often do this. By setting a high "anchor" price, makes the discount look cost-effective. We also have restaurants that use anchoring technology. For example, Serendipity3, a New York-based restaurant, launched the "Premium Hot Dog" at a price of \$69, making it the most expensive restaurant in the world. It is designed as an anchor. When customers came in and saw a \$69 hot dog, a \$17.95 burger and fries seemed cheap. The restaurant also launched a \$1000 gold-rich sundae, which is available 48 hours in advance. Although only one product has been sold, it has promoted the sale of cheaper desserts, such as fruit and soft candy for \$15.50.

5. Conclusion

In a word, the anchoring effect has both advantages and disadvantages, whether from the individual level, the enterprise marketing level or from the social development level.

On the one hand, we should understand this phenomenon, apply it to real life, and use its advantages to avoid its disadvantages. For example, we can set the high standard as an initial anchor to improve our efficiency in work and study. If the people you found at the anchor point study and work efficiently at the beginning, you will be surprised to find that your own strength will also increase when you compete with and learn from him. On the other hand, when we do research in

other fields, we can avoid the negative impact brought by the anchoring effect and not fix our thinking on a certain point or a certain level of thinking and think in a multi-dimensional thinking way so that the research conclusions and results may be more objective.

References

- [1] Information on: <https://doi.org/10.1126/science.185.4157.1124>
- [2] Information on: <https://new.qq.com/rain/a/20211225A0240000>
- [3] Information on: <https://amjudges.org/publications/courtrv/cr49-2/CR49-2Peer.pdf>
- [4] Furnham, A., & Boo, H. C. .A literature review of the anchoring effect. The journal of socio-economics. Vol. 40(2011) No.1, p. 35-42.
- [5] Wilson, T. D., Houston, C. E., Etling, K. M., & Brekke, N. A new look at anchoring effects: basic anchoring and its antecedents. Journal of Experimental Psychology: General. Vol. 125(1996) No.4, p. 387.
- [6] Strack, F., & Mussweiler. Explaining the enigmatic anchoring effect: Mechanisms of selective accessibility. Journal of personality and social psychology. Vol.73(1997) No.3, p.437.