



The Impact of Psychological Value (Emotional Attachment) on the Price of Second-Hand Goods

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Abstract

Many marketing and economic studies have discussed the main determinants of the price in the market. However, to the best of our knowledge, few studies have addressed how the price could be determined in second-hand shopping. Studies have concluded that the duration of ownership has a significant positive relationship with the value of the object. This paper argues that such a relationship depends on the experience of using the object (either positive or negative). It argues that ownership duration per se cannot determine the price of second-hand goods. Rather, the type of experience during the acquisition is the main determinant of the price of second-hand goods. It reviews the related literature and paves the way for investigating the effects of psychological determinants on the valuation of second-hand goods.

Subject Areas

Economics

Keywords

Emotional Attachment, Second-Hand Goods, Price, Valuation

1. Introduction

Nowadays, countries aim to establish more sustainable industrial paradigms and strategies, which made the circular economy undoubtedly become one of the hot topics in public debates (Urbinati, Chiaroni, & Chiesa, 2017) [1]. The economic theories assume that behavior can be either rational or irrational, and a customer's rational behavior is the only determinant of price. However, other factors might

affect the price of second-hand goods. The second-hand economy refers to the case when consumers sell goods to each other (Frenken & Schor, 2019) [2]. Customers are usually uncertain about the quality of second-hand goods, which makes price a major fact in evaluating the quality (Monroe, 1973) [3]. The article titled *The Market for Lemons* by Akerlof (1970) [4] discusses asymmetric information and explains how the lack of information by one party could lead to an imbalance of power in transactions, and consequently to market failure. Such failure could also occur because of the psychological valuation of the objects because one party values the object (seller) higher than the other (buyer) which could lead to failed transactions. Factors such as relief, disbelief and gratitude are regarded as important when evaluating second-hand goods (Spiller, 2015) [5]. Researchers have found the psychological valuation of the buyers and sellers vary (Monroe, 1973) [3]. It indicated that the evaluation of an object is affected by psychological ownership (Shu & Peck, 2011 [6]; Strahilevitz & Loewenstein, 1998 [7]).

Studies of the psychological value of ownership classify it into legal, psychological ownership when the individual has the legal property of the object and when they do not have such a legal property (Ariely & Simonson, 2003 [8]; Kahneman *et al.*, 1990 [9]; Shu & Peck, 2011 [6]). Shu and Peck emphasize the importance of psychological ownership as a determinant of loss. Such loss could be reflected in the evaluation of the object (Johnson, Häubl, & Keinan, 2007 [10]; Shu & Peck, 2011 [6]) and the price of second-hand goods. Stroker, Natasha, and Gerrit (1997) [11] argue that the price of second-hand durables can be predicted based on the intersection of the cumulative distributions of buyers' and sellers' reservation prices. This paper focuses on enhancing the pricing model based on the psychological value of the product.

According to Grewal *et al.* (1998) [12], sellers can increase the acquisition value perception by enhancing buyers' perception of the quality or benefits relative to the selling price. It means that the perceived quality can determine the acceptable price of the goods. However, there is a conflict between the perceived quality and the seller acquisition value of second-hand products. For new products, the seller acquisition value can be minimized to zero. However, for second-hand goods, this value can increase to an unknown range. This paper will discuss the aspects related to second-hand goods as in section two; the focus will be on the motivation for the acquisition of second-hand goods, while section three will cover the buyer-seller relationships. Additionally, the paper will explain the concept of price discrimination in section four, and section five will highlight the role of emotional attachment in second-hand goods buying decisions.

2. The Motivation to Acquire Second-Hand Goods

There are three possible motives to acquire second-hand goods, namely the wish to acquire a product, the desire to satisfy needs not linked to the product, and

the goal of achieving certain ends independent of the actual purchase (Guiot & Roux, 2010 [13]; Westbrook & Black, 1985 [14]). One of the reasons for acquiring second-hand goods is related to the economic rationale linked to declines in purchasing power of middle classes since the 1980s (Brooks, 2019 [15]; Bick, Halsey, & Ekenga, 2018 [16]; Reis, 2020 [17]; Williams and Paddock, 2003 [18]). For example, in the US textile industry, approximately 500,000 tons of used clothing are exported abroad from the United States each year, the majority ending up in low and medium-income countries (Bick, Halsey, & Ekenga, 2018) [16]. Additionally, a second-hand object does not necessarily invite comparison to an equivalent new product, nor is its appeal solely a matter of price (Guiot & Roux, 2010) [13]. Having the object could be due to psychological motivation such as the acquisition of the world's most famous paintings such as the Mona Lisa and Vase with Fifteen Sunflowers, and employees' feelings of ownership toward the organisation and various organizational factors (Pierce, Kostova, & Dirks, 2001) [19]. In addition, second-hand goods are also attractive due to their unusual character, rarity, geographical, biographical, and historical origins (Guiot & Roux, 2010) [13]. This means that the exchange process is dominated by the motivation of buyers and the value of the object from the seller's point of view.

3. Overview of Buyer-Seller Relationships

In the free market, it has been articulated that the price of goods will be determined by the extent to which they are demanded by customers (Gale, 1955) [20]. However, there is sometimes uncertainty in the demand, which leads to the imbalance between the supply and demand of products, and consequently the risk of unsalable or stock out (Feng, Li, Lu, & Shanthikumar, 2022 [21]; Yu & Yan, 2022 [22]).

On other hand, it is commonly accepted that a buyer can purchase from a seller only if they are linked. Such an assumption has directed the previous pricing literature to the importance of buyer-seller relationships (Grewal, Monroe, & Krishnan, 1998 [12]; Kranton & Minehart, 2003 [23]; Johnson & SeEVERS, 2015 [24]; Walter, Ritter, & Gemünden, 2001 [25]). For instance, Kranton & Minehart (2003) [23] articulate that the network between the buyer and seller can facilitate the exchange of goods, and find that buyers and sellers are acting strategically in their self-interests. Xia, Monroe, & Cox (2004) [26] suggest that the influence of the buyer-seller relationship and the different types and dimensions of trust in the different stages of the relationship are worthy and testable factors. However, their proposed framework is linked to the new products and discusses the fairness and unfairness of the price based on the perceptions of both buyers and sellers.

With regard to second-hand goods, the relationship between seller and buyer also plays a role in facilitating the exchange process. However, this process will be partly affected by the perception of the buyer of the psychological value of the product. That is why exchanging goods between the seller and buyer is easy

when they know each other. Such knowledge enables the buyer to evaluate the product from the seller's point of view because the buyer has historical information about the object. In case there is no prior relationship between the seller and buyer; asymmetric information plays a role and might lead to market failure. This point reflects the application of The Market for Lemons' theory by Akerlof (1970) [4], who introduced the role of trust in trade exchange. He added that informal unwritten guarantees are critical for trade.

4. The Price Discrimination

Discrimination of the price is common within the business and for many types of services including health, education, and tourism. For example, the cost of health care might be higher for foreigners than for locals. Markets are seldom perfect. Several reasons contribute to the equilibrium of the price. One reason is that sellers can practice price discrimination (Elegido, 2011) [27]. Supply-demand interaction and transaction costs are the main determinants of second-hand prices (Anderson & Ginsburgh, 1994) [28]. They added that these variables are affected by the price of new products. In the face of this, the monopolist, in choosing its price, determines the extent and even nature (e.g. whether it exists at all) of the secondary market. The economic theory suggests that a seller might practice price discrimination. The second-hand market is an indirect tool to discriminate the price (Anderson & Ginsburgh, 1994) [28]. This paper argues that such discrimination could be attributed to the psychological value of the goods.

Anderson & Ginsburgh (1994) [28] assume that the absence of a second-hand market can be found if the three following conditions are met: transaction cost is very high, there is no valuation of newness, and used products have no value. When second-hand goods have no value, it means that the negative experience outweighs the positive. This leads the price curve of second-hand goods to drop close to zero.

5. How Emotional Attachment Might Affect the Price of Second-Hand Goods?

Similar issues have been discussed in experimental tests of the endowment effect and the Coase Theorem by Kahneman, D., Knetsch, J. L., & Thaler, R. (1990) [9] and Query Theory of Value Construction by Johnson, E. J., Häubl, G., & Keinan, A. (2007) [10]. However, the endowment effects are varied based on the seller's goal (Ariely, Huber, & Wertenbroch, 2005) [29]. Ariely, Huber, and Wertenbroch state that the endowment effects are difficult to observe when the sellers' goal is earning revenue. Some studies suggest that a person needs to be paid twice as much as the original price to give up the object (Ariely, Huber, & Wertenbroch, 2005) [29].

In this paper, we depend on experience, which refers to all past events related to the history of the ownership of the object. For example, a family might decide to sell a house because of a negative experience, such as a death of a beloved person. The value of the house might be determined based on that event. An-

other example might take advantage of a positive experience because it is linked to a happy event, such as an object being linked to graduation or received from a beloved person.

We propose that the price of second-hand goods will be equal to the value of the product in the market plus the positive experience of using the product minus the negative experience with the product. Negative experience refers to all negative events associated with using the product (the failure in function, association with sad events, and obsolescence). The positive experience refers to any strengths in the product including the quality, association with happy events, reputation factors, and scarcity. In the case the experience factors (bad and good) are absent, the price of second-hand goods will be the same as new goods.

Accordingly, the price of second-hand objects is formulated as follows:

$$= \text{Market Value} + \text{Positive Experience} - \text{Negative Experience}$$

Figure 1 and **Figure 2** show the relationship between the price and negative/positive experience.

6. Conclusions

This paper focuses on how the price of second-hand goods could be affected by the psychological value of the goods from the seller's point of view. Following Ariely, Huber, & Wertenbroch (2005) [29], we believe that during the period of acquisition of the product by its owner, a relationship develops between the owner and the object (emotional attachment). This relationship can be valued from the owner's point of view, and such value will affect the price. Although such a value may not be evaluated by the buyer, it will partly influence the negotiation process. According to Shu & Peck (2011) [6], the duration of ownership will have a significant positive relationship with the valuation of the object. They

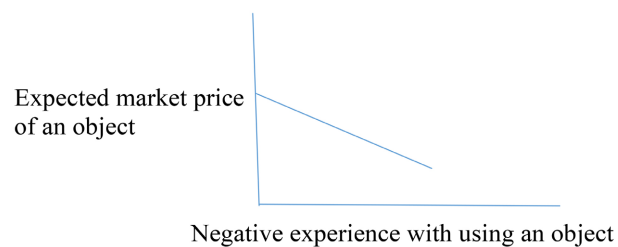


Figure 1. The relationship between the price and negative experience.

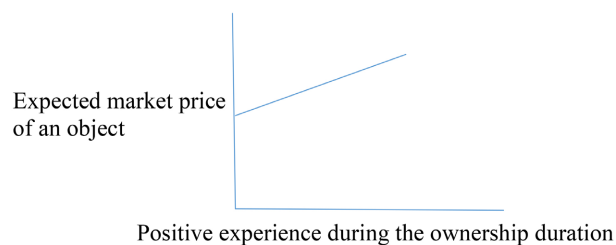


Figure 2. The relationship between the price and positive experience.

conclude that the average minimum selling price for long-endowment participants is significantly higher than the average selling price for short-endowment participants. However, the previous study ignores the experience with using the object. Our paper argues that duration per se cannot determine the price of second-hand goods. Rather, the type of experience during the acquisition is the main determinant of the price of second-hand goods. This paper is the first paper that discusses the role of experience in determining the price of second-hand objects.

Although the paper represents the first attempt to discuss how the price of second-hand objects might be impacted by the history of ownership, it lacks empirical data to approve its assumptions. Therefore, future studies should test the proposed model.

Conflicts of Interest

The authors declare no conflicts of interest.

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