

of interest. These considerations do not occur naturally to undergraduate students – frustration at economics does, which is largely a result of the way they are taught and evaluated in economics.

Perhaps for some readers, this article has raised more questions than provided answers. Indeed, it has touched upon just one aspect of only *one* of the many questions and criticism one popularly hears regarding economics. Much can be talked about the techniques and tools of economics, the large involvement of mathematics, and the issue of teaching methods in economics. It is hoped that more discussions on such issues would not only attract a larger and better student body towards the subject, but also encourage ownership, association and earnest perusal in current students of economics.

Overvaluing What We Own!

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Economics traditionally identifies the world as inhabited by cunning, dispassionate maximizers that have been called Homo economicus. The standard economic framework, that people were so used to, never took into account the studies concerning behavior by cognitive and social psychologists. This “un behavioral” economic agent was fortified by many, sometimes claiming the model to be just “right” or sometimes arguing that the model formalized was more appropriate. Behavioral

economists, who integrated study of human behavior while studying their economic interactions, arrived at the fact that neither point of view was correct.

Behavioral economists try and find out cases where they can show how irrational human behavior can be. One such example is that, when we own something, we value it more. In a simple experiment on exchange of two goods (candy & coffee mug), Jack Knetsch in his research found that preferences were not independent of the direction of the exchanges, as is commonly assumed. Rather they exhibited asymmetry; he called “A case of Non-reversible indifference curves”, where participants favored to keep their initial entitlements, whatever it be.

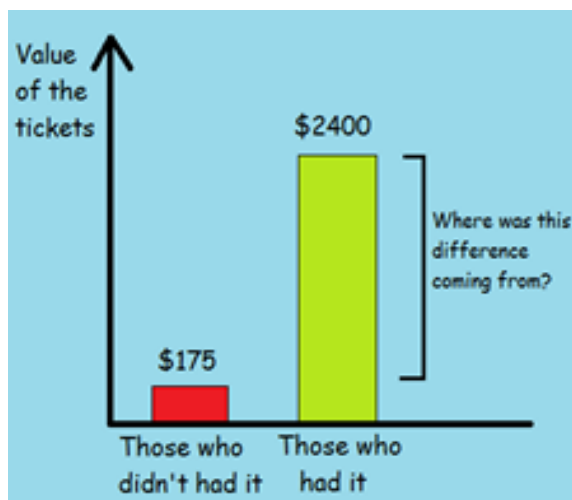
So Dan Ariely, a well-known behavioral economist, decided to find out the truth. He takes the example of Duke & says that life there revolves around basket-ball. The colors, the festivities, the rituals, everything is centered on basketball, and it’s pretty splendid too. However, there is a whole convention about which student gets to see the match and which doesn’t. So, it’s not just about the desire and passion, it’s also about stamina, persistence and spirit. Now what’s fascinating there is that since the basket ball stadium is undersized, it does not have enough seats to accommodate all fans. And sometimes, for national titles, even footing in line for a few days, camping outside the arena and all is just not enough because the tickets are distributed through a lottery process and when it gets over, some would own tickets, while some won’t.

Because a research by Jack Knetsch & Dick Thaler on the “endowment effect,” concludes

that when we own something-whether it's a pen or an I-phone, we value it more than others do, the question there was, 'Would the students who had the tickets value those tickets more than the students who don't have even when they all "strived" equally hard to get it?

Think about this for a while. Why is it that the seller of an automobile values it more than the buyer and thus envisages for a higher price? It's said that "One man's ceiling is another man's floor." So he wanted to see how much people valued their tickets. He called up people to negotiate & buy some tickets from those who had won them and sell them to those who hadn't.

When asking about the marginal willingness to pay for the ticket and the minimum amount people wanted to sell theirs, he found that, on an average, those who owned the ticket were not ready to forgo it for less than \$2400 per-ticket and people who didn't have it were not willing to forfeit more than \$170 per ticket.



So where was this difference coming from? From a rational perspective, both the ticket-owners and the non-ticket owners would have

anticipated the game in exactly the same way. They were equally passionate and the enjoyment derived from the game didn't depend on the lottery process.

Then how have the random lottery drawings changed the students' perspective of the game and the value of the tickets, so dramatically and distinctly?

The difference comes from the change in the perspectives with ownership. The price that the non-owners were willing to pay was then driven by alternative uses of the money (like spending in a restaurant or Wonderland), while those who possess the ticket, they thought about it from the standpoint of an owner & defended their worth of it in terms of the experience it would be and the enduring memoirs it would craft.

So in some sense, when we have buyers and sellers, we have two different people from two different perspectives, each viewing the transaction not as the same thing they give and get, but focusing more on what they are liable to give up in the transaction.

Ownership suffuses our lives and, in an eccentric way, shapes many of the things we do. Since ownership dictates much of our lives, wouldn't it be easier if we knew exactly how much we value everything we own and then transact? But we can't, because of three irrational whims in our human nature.

The first one, as it was observed in the case of the basketball tickets, is that we begin adoring what we already hold. It happens to everything we own right from our favorite T-shirt to our

Play-station.

Secondly, we think more about what we may lose, rather than what we are gaining. Ever wondered why we often refuse to sell some cherished gifts? Because the moment we begin thinking about giving up our treasured chattels, we are already grieving the loss.

Thirdly, we assume that our perspective will match the other party's when transacting. If we own a car, we have some emotions attached to it and when we sell it, we expect that the buyer will have the same emotions too. So we might tend to overvalue the price.

Now what's intriguing is that ownership is not limited to material things; it also applies to points of view. Once we breed an idea, we start loving it more than we should; praising it more than it's actually worth. If someone is fascinating, we keep on telling ourselves that he/she is fascinating and we find them even more fascinating. And the problem is that we can't stand letting go the idea. And we are left with nothing, but a dogma, stiff and non-transforming.

Ills of ownership can't be cured. It is woven into our lives as Adam Smith said. But being responsive might actually help. The temptation to perk up the quality of our lives, to buy expensive furniture, a larger home, a better Sedan and all should be held back, because it's psychologically painful if one is demoted to a pre-ownership state. It's a loss, one cannot put up with. So next time when you make a transaction, do put some distance between yourself and the item of interest first.

References

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Trading ideas, not stocks

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The current Occupy Wall Street movement is like watching history repeat itself as a reality show. If only Marx had been here to see his prophecy come true.

He described the new stage that unfolds as soon as 'the capitalist mode of production stands on its own feet'. "One capitalist always kills many. Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital