



The Review on Anchoring Effect

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Abstract. The anchoring effect is very common in life is one of the heuristics. This article reviews the background and mechanism of the anchoring effect. The essay uses real-life applications and case studies to explore the effect of the anchoring effect, and concludes through case studies and real-life findings that the anchoring effect is robust, can make a good impact on some things and also is a very common marketing tool.

Keywords: Anchoring effect · School choice · Judgement · Shopping festival · Robust

1 Introduction

Anchoring bias, also known as the anchoring effect, is a powerful finding when people tend to give excessive weight to information that is already present when making decisions, and are thus influenced by the information [1]. In experiments with anchoring bias, participants are explicitly asked to compare anchors and targets. Inspired thinking was first introduced in 1955 by Simon, who proposed a model of “rational choice” behavior, a process of rational judgment of the external environment and internal characteristics before making a decision. This model advocates “limited rationality”, also known as the heuristic cognition model, and has been followed by many studies on how limited rationality makes decisions in different contexts [4][5]. In later studies based on stimulating thinking, a branch of stimulating thinking emerged as the anchoring effect. The earliest concept of the anchoring effect was introduced in 1968 by Paul Slovic and Sarah Lichtenstein, who first observed that the purchase and sale prices of gambling were primarily determined by payoffs, while the choice between gambling was determined by the probability of winning and losing. Preference reversals were found in a series of their studies [6]. Next will explore some applications and properties of anchoring effects, which are motivated by the discovery of anchoring effects in life.

2 Literature Review

The anchoring effect is mainly applied to probabilistic reasoning, such as negotiations, consumer behavior, auctions, and judgment decisions. In consumer research (Kellar, 1993, 2003), for example, consumers form a concept of brand image and will compare

a brand with other brands, which among other things has an anchoring effect. Like co-branding, bringing the look of a brand familiar to the public under a new image will change the consumer to form a new impression of that brand, which will attract the consumer to buy it. In co-branding, one party acts as an anchor and influences the overall image of the co-brand, thus promoting consumption [8]. The anchoring effect is also widely seen in auctions, with Phillips and Menkhaus (2010) claiming that price information is an anchor point for buyers and sellers, while Galinsky and Mussweiler (2001) reveal that the first price in an auction is the anchor point and therefore affects the final result [9]. The essay proceeds as follows. In Sect. 2 describe the significance of anchoring bias. Section 3 is applications. Section 4 is contains some concluding remarks.

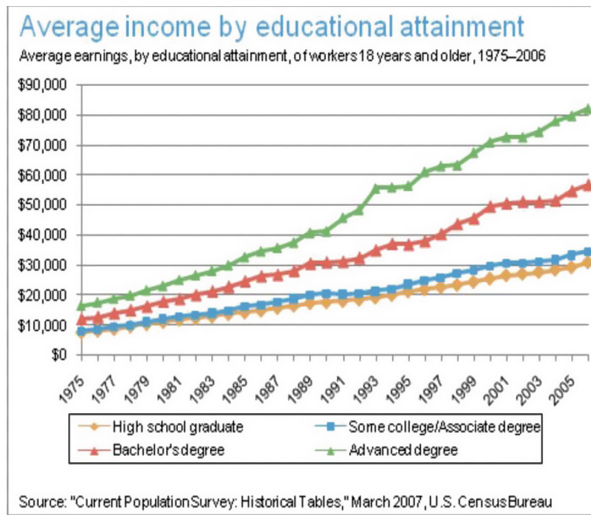
3 Significance of Anchoring Bias

The phenomenon of anchoring is very common in our lives, occurring in the real world and in various laboratories, it is commonly used by some businesses and financial securities analysts. Anchoring is very powerful and they can occur and last for a long time even if the anchor values do not have enough information [2]. Daniel Kahneman (1974) proposed the existence of dual anchors, a mechanism in which two anchors work together, the internal anchor is reasoning or experience, and the external anchor is intuition, under which the two anchors work together to motivate consumers to consume. The egocentricity of social judgments is also part of the anchoring mechanism; for example, people may overestimate the extent to which others are concerned about things because they use their own experiences as anchors to evaluate the experiences of others. Anchoring mechanisms help us become better in life, and when you often walk with good people, your assessment of good people is an anchor point that influences your own assessment. It is important to understand the anchoring effect, there is yes, and in the context of consumer valuation, both online and offline will be successful. Studies have shown that consumers first judge the value of the price of a good before deciding whether to buy it (Monroe 2003). If the price that consumers are willing to pay reflects the perceived value of this good [10]. The anchoring effect also occurs in politics, where political news is littered with numbers that convey objectivity and are an important basis for political debate. But if the data is wrong it can bias individuals to a certain extent towards attitudes (Lewandowsky et al., 2012; Thorson, 2016). Even if we find errors or irrelevant figures in the news, this can lead to bias in our judgments (Furnham & Boo, 2011; Tversky & Kahneman, 1974) [11].

4 Analysis of the Practical Application of the Anchoring Effect

4.1 The Case of School Choice

In the case of environmental protection, where protecting the environment through direct orders and a series of controls was ultimately unsatisfactory, instead, the situation is made worse, for example, by people resisting strict orders and marching to warn the government. However, the use of pollutant emissions trading has not only protected the environment, also created new markets and more freedom. The same freedom is needed

Table 1. Average income by educational attainment.

in education to support more choices for people. But the current state of education in the United States is such that children from wealthy families are sent to private schools for a better education, while children from poor families are left to attend the nearest school. The great liberal economist Milton Friedman (1955) suggested that the best way to improve schooling is to introduce competition, school to school, to improve the quality of teaching and learning, and the ultimate gain is for the children [7]. The choice of school is crucial for children, sending children to a good school is likely to produce better educated children, as shown in the chart [12] below you can see that higher education often results in higher income which for some poor families can improve family income in the future (Table 1).

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The most important point about school choice is parental choice, especially for parents with low incomes who have no information about schools and cannot tell which school is better. A creative experiment in Charlotte has shown that giving parents some simple information can improve choice and can allow them to choose a public school to attend other than the default school. Parents from poorer families place much lower value on the quality of schooling than parents from wealthier families and rarely try to go to better schools. In the experiment, a random sample of parents were given a brief description of some of the schools. Each sheet lists each child's average school performance and acceptance rate in descending order. This gives parents an idea of how good the school is and a valuation of a good school in their mind. Parents who receive the instructions choose schools, especially parents from poor families they choose good schools so that their children can improve their academic performance by 70% compared

to when they were attending a neighborhood school. It is a good practice to choose schools in this way not only to improve the freedom but also to improve the knowledge of poor children and to help parents choose schools with simplified information.[3] The anchoring bias in this is that when the experimenter gave the parents the information, the information listed the average scores and acceptance rates of all the schools, the average scores and acceptance rates of the good schools were an anchor point that gave the parents a quick valuation of the good schools, so with this anchoring effect parents tended to choose better schools for their children to attend.

4.2 The Case of Judgement

The anchoring effect is robust, no matter how much time has passed as long as it is when one person throws the anchor, others will be affected, and regardless of whether the person is a connoisseur in the field. For example, this case, the prosecutor and the lawyer have made their final statements about the rape case, all the important information is in front of judges, and one of the important facts is the victim's statement about the circumstances at the time of the crime, speculation about the possibility of another rape, but after the hospital examination, the results are different from the speculation, and judges can not make up your mind. At this point judges suddenly think of the question he were asked by the reporter the other day, "Do you think the defendant's sentence should be higher or lower than three years?" The fact that judges started thinking about this question means that judges have been affected by the anchoring effect. A study by English, Mussweiler, and Strack (2006) shows that even trial judges with 10 years of experience can be influenced by sentencing issues. After thinking about the reporter's words, the judge gave a final sentence of 3 years and 8 months, which was 8 months longer than the defendant for the same crime. [2] The reporter throws an anchor point of 3 years of imprisonment at the judge, who is thus influenced by this anchor point and makes a judgment. If the outcome of the trial is presented by a layman, he will also be influenced by the journalist inside, but the result will not only affect the final verdict but also the counter-claim of the defense lawyer, thus we can know that anchoring has a significant impact on human beings and the anchoring effect is universal and powerful. Moreover anchoring can last for a long time, just as the judge recalls what the reporter said without thinking about it, and the anchoring effect is a robust phenomenon.

4.3 The Daily Phenomena

The third application is a phenomenon that the author found in real life. Many people buy goods on the day of the shopping festival, but relatively few people shop on weekdays, and the prices of some goods do not change significantly. The author have noticed the anchoring effect in China's Double 11 mega sale day (like Black Friday). Merchants put the price set by the retailer on top, along with the sale price, so that they anchor the buyer to a higher price. Once the buyer settles on the retail price, which is the higher price, then the buyer feels that the sale price is now a good choice. When we see the shoe advertisement below (Fig. 1), in the first advertisement people are indifferent to it and find it mediocre. In the second ad the original price of ¥100 is now ¥49, a discount of about 50%, and that's when some buyers will buy. In the third ad, the first anchor point

		
\$49 Skate shoes!	MSRP: \$100 Skate shoes! Sales: \$49	MSRP: \$100 Skate shoes! Sales: \$49 *Lowest Price Guaranteed! !

Fig. 1. The advertisement of skate shoes (Source: edited by the author)

	
¥100,000	¥10,000

Fig. 2. Different prices of a bag (Source: edited by the author)

is set at ¥100 and there is a “guaranteed lowest price” statement, which immediately increases the number of buyers. The third ad is very common on sales days like Double 11, where the original price is \$49, but throwing in an anchor point of ¥100 with words like “guaranteed” can greatly influence people’s decisions. For example, if you see a bag worth ¥100,000, and you see a bag worth ¥10,000 next to this bag (as shown in the following Fig. 2).

Most buyers will immediately buy the bag next to the one worth ¥10,000, people will feel that this ¥10,000 bag is very cheap, but in fact, this is also a reflection of the anchoring effect. The merchant first throws out an anchor point of ¥100,000, people will be influenced by this anchor point, and after comparison feel that the ¥10,000 bag is much cheaper, so that consumers will feel that they have taken advantage of the bargain. The greater the value perceived by the consumer, the easier it is to produce purchase behavior.

5 Conclusion

In the case of school choice, the anchoring effect helps parents make the most of their freedom to choose a better school for their child, which can demonstrate the positive impact of the anchoring effect. The judge’s case illustrates the power of the anchoring

effect and concludes that the anchoring effect remains effective long afterwards, indicating the stability of the anchoring effect. In the case of life sales days, merchants use anchoring in this environment to stimulate buyers' impulse to spend. The anchoring effect has been shown to be very powerful, appearing in all aspects of our lives, and it can play different roles in decision making in different contexts, both positive and negative leading to the conclusion that the anchoring effect is robust to have a great impact on our lives.

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