



Why does losing hurt more than winning feels good?

A loss feels about twice as big as an equal gain, and owning something makes it worth more to you: loss aversion and the endowment effect.

1

The flip

rational benchmark

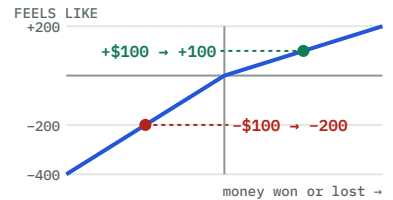
- Self-test: fair coin → heads **win \$150** · tails **lose \$100** → play? → **most people pass**
- Expected value:** “the average result per play if you could repeat a gamble many times”
- $\frac{1}{2} \times \$150 - \frac{1}{2} \times \$100 = +\$25$ per flip (two flips: $150 - 100 = +\$50$) ⇒ **RATIONAL** plays
- Rational rule:** judge a gamble by its **average result in dollars**

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Loss aversion

a loss counts double

- Prospect theory** (1979) · **Kahneman + Tversky** (Israeli-American psychologists)
→ money judged as a **change from where you start** (reference point)
- Loss aversion:** “a loss feels about twice as big as a gain of the same size, so people turn down bets that are good on average”
- Value curve (made-up numbers) → **+\$100 → +100** · **-\$100 → -200** → **twice as steep** for losses
- Real studies → about **× 2** (Tversky + Kahneman 1992: ≈ 2.25)



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Math of feelings

when does it feel fair?

- \$150 / \$100 flip → feels $150/2 - 200/2 = -25$ → no · fair win = **\$200** ($2 \times$ the loss)
- \$60 / \$40 flip → **+\$10** in dollars · feels $60/2 - 80/2 = -10$ → fair win **\$80**
- Find \$50 (**+50**) + lose \$50 (**-100**) → even in \$ · day feels **-50** · a \$50 loss = a \$100 gain
- Loss framing** → same choice as “don’t lose” → café: “save 20¢” (+20) vs “pay 20¢ extra” (-40) → the charge works like a **≈ 40¢ discount**

RESULT	DOLLARS	FEELS
heads	+\$150	+150
tails	-\$100	-200
avg / flip	+\$25	-25

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Endowment effect

owning raises value

- Endowment effect:** “people value something more once they own it, because giving it up feels like a loss”
- RATIONAL** owner’s lowest selling price $\approx$ buyer’s highest price → **two equal bars**
- REAL** gift ball: \$50 to sell · \$20 to buy · a free “Pro” week → losing it hurts → pays

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Evidence

the mugs · 1990

- Kahneman** (psychologist), **Knetsch + Thaler** (economists) · Cornell University class · coffee mugs to a **random half**
- Owners: lowest price to sell $\approx$ **\$7** · others: most to pay $\approx$ **\$3** ⇒ luck decided who owned → the gap = **owning itself**



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So what

who uses it · defense

- Who uses it:** free trials · “30 days money back” · test drives → you own it first · “don’t lose your credit” → a loss frame
- Chain: 30 days free → **feels yours** → canceling = a loss ($\times 2$) → many keep paying \$10/month → more free trials
- Your defense** (ownership test): “if I did **not** own it, would I buy it **today** at **today’s price**?” → breaks the chain at link 2 · share (piece of a company) bought \$50, now \$40 → the \$50 is gone either way

Watch out: a bet that **feels** bad can still pay **on average** (+\$25 per flip) · the gap is in your head, not in the dollars · rational $\neq$ loves risk: it just counts a \$1 loss as \$1