

Reading 9

Traditional economic models assume that consumers make rational decisions when evaluating prices. However, behavioral economists have demonstrated that psychological factors strongly influence purchasing choices. One such factor is “anchoring,” a cognitive bias in which individuals rely heavily on the first piece of information presented when making decisions. In pricing, the initial number a customer encounters serves as a **reference point** that shapes how subsequent prices are perceived.

For example, when a product is first shown at a high “original” price and then marked down, consumers often view the discounted price as a better deal—even if the final price remains higher than comparable products. This effect persists even when shoppers are aware that the original price may have been intentionally inflated.

Another psychological element is the use of “charm pricing,” where prices end in .99 or .95. Studies show that customers tend to perceive these amounts as significantly lower than rounded numbers, even though the difference is only a few cents. Retailers frequently combine both techniques to maximize sales.

Despite the effectiveness of these strategies, critics argue that such practices may exploit cognitive biases, leading consumers to make decisions that do not reflect their actual preferences or financial interests.

Questions

1. What is the main idea of the passage?

- A. Prices ending in .99 should be avoided by consumers.
- B. Consumer decision-making is influenced by psychological pricing strategies.
- C. Traditional economic models accurately predict shopping behavior.
- D. Retailers rarely use anchoring.

2. According to the passage, why do “original” prices influence customers?

- A. They provide factual data about product quality.
- B. They create a reference point that affects later judgments.
- C. They guarantee the discount is genuine.
- D. They encourage customers to compare stores.

3. **The phrase “reference point” is closest in meaning to:**
- A. conclusion
 - B. destination
 - C. standard for comparison
 - D. unexpected result
4. **What can be inferred about charm pricing?**
- A. It continues to work because consumers process numbers quickly.
 - B. It is illegal in many regions.
 - C. It confuses shoppers to the point of avoiding purchases.
 - D. It is more effective for expensive goods.
5. **What is the purpose of the final paragraph?**
- A. To present an opposing viewpoint on psychological pricing
 - B. To introduce new pricing techniques
 - C. To praise retailers for their creativity
 - D. To summarize research findings

ANSWERS: BBAA