

# Prospect Theory - complement

J.Skorkovský

ESF-KPH

# Prospect versus Utility Theory

- Marketers are implicitly interested in **how** and **why** people make decision
- Having in mind the fact, that we are rational beings :
  - we have to weigh up the odds
  - apply laws of probability
  - make decision
- That is a easy world and marketing would be a simple science

**BUT**

- We have to know **how** and **why** our behaviour deviates from rational decision models

# Prospect versus Utility Theory

- **Utility Theory :**
  - Two prospects with the same expected utility will be given the same preference by rational decision makers
- **Prospect Theory :**
  - Outcome of decision-making under condition of gains and loses is not symmetrical
  - Decision appears to be irrational
  - When we are in positive domain – **risk averse**
  - When we are in negative domain – **risk seekers**

# Prospect theory and marketing implication

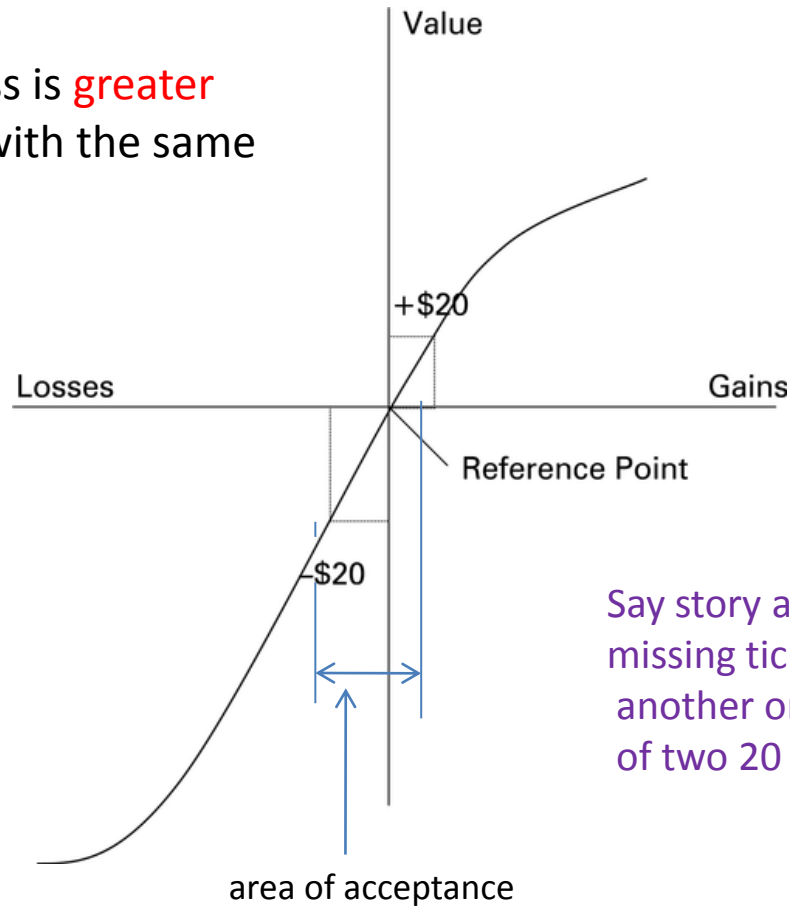
- How and advertising message is framed
- How a new product is positioned
- How a new product is priced relative to the competitors and consumers expectations
- How a product is priced and the premium a consumer is willing to pay
- What markets will respond to what types of offer

# Reference point (area of acceptance)

Gains and losses are valued from subjective reference point

Displeasure associated with loss is **greater** than the pleasure associated with the same amount of gains

*Pleasure = value ( in our case )*



Say story about missing ticket 40 and buying another one and lost of two 20 USD bills...