**Endowment Effect Experiment – Hoodie Edition**

**Objective:**

This experiment aims to replicate Richard Thaler's experiment on endowment effect, which postulates that people place a higher value on objects merely because they own them. We will use hoodies with the Cambridge University logo as the object of interest.

**Materials:**

1. Hoodies with Cambridge University logo (market value approximately £25)
2. Fake money (for possible buying and selling transactions)
3. Qualtrics survey link for record-keeping and consent forms for participants

**Instructions:**

Step 1: Preparation

Inform the participants that they will be participating in an economic experiment, but do not disclose the details or the purpose of the study. Obtain their consent.

Step 2: Division of Participants

1. Put participants with participant numbers ending with an even number in the ‘Owners’ group, and the rest in the 'Buyers' group.
2. Sit them in pairs.

Step 3: Distribution of Hoodies and Fake Cash

* Show the Cambridge hoodies to all participants. Inform them that similar hoodies can be bought at a price of £25.
* Give each participant in the 'Owners' group a Cambridge University hoodie. Inform them that the hoodie is now theirs to keep.
* Give each participant in the 'Buyers' group £50 fake cash. Inform them that they will use this to potentially buy a hoodie from the 'Owners.'
* Explain to the participants that they will be asked to indicate either their willingness to accept (WTA) a certain amount to part with their hoodie (for Owners) or their willingness to pay (WTP) a certain amount for a hoodie (for Buyers).

Step 4: Price Determination

* Send the Qualtrics survey link to all participants.
* Each participant should answer questions to clearly identify their role first (i.e., “Are you a buyer”? Or “Have you been given a hoodie?”). Remind all participants to check their answer to these questions carefully before proceeding to the final question.
* The final question of the survey is the WTA/WTP from each seller/buyer.

Step 5: The second hoodie

Give each seller one more hoodie. Repeat Step 4.

Step 6: Transactions

Ask each buyer-seller pair to reveal their WTA/WTP in the each round to each other. If the buyer's maximum buying price is higher than the seller's minimum selling price, a transaction can occur. Ask the seller in each group to raise their hand if a transaction occurs in each round. Announce the total number of the transactions to the class.

**Prediction:**

According to the endowment effect, we would expect the average selling price of the 'Owners' group to be significantly higher than the average buying price of the 'Buyers' group. This is despite the fact that the intrinsic value of the hoodie (market price of £30) is known. The WTA-WTP gap should remain in the second round, but smaller. The number of transactions in the second round should be larger than that in the first round.