Econ Essentials

DIGITAL LESSON BUNDLE

Implementation Guide for Educators

#4: How We are Affected by Price

Objectives

Students will:

- **Examine** scenarios and determine prices for goods and services.
- **Analyze** the impact of the anchoring effect on consumer decisions.
- **Apply** their understanding of behavioral economics to consumer choices found in the real world.

Overview

People are influenced by price in many different ways. The behavioral economics principal known as the anchoring effect influences the amount people are willing to pay for items. In this lesson, students begin by participating in an activity that demonstrates how being provided with a specific dollar amount can influence the price people would recommend for an item. After learning about anchoring, students discover that people have an easier time valuing items with which they are familiar, which can diminish the anchoring effect. Through a series of activities and discussion, this Digital Lesson Bundle (DLB) challenges students to consider how their buying and selling decisions can be influenced by prices, and how the anchoring effect can come into play.

Futures Spotlight

Throughout the Econ Essentials digital curriculum, teachers and students will gain insight into various industries and market participants and how the roles of each relate to the economics concepts they are exploring. In this fourth and final behavioral economics lesson bundle, students will again explore how these concepts relate to various industries, including the futures industry, and further understand how each one fits into their everyday lives.

In “How We are Affected by Price,” students will discuss different pricing scenarios, dive deeper into the concept of anchoring, and explore some of the factors behind the variation in prices for specific items, including gas. A video highlighting “The Story of Oil” will cover the variables that can cause gas prices to fluctuate, and why market participants come to exchanges like CME Group to use futures contracts to manage the risks these price changes can have on their business.

Content Areas

Economics; Financial Literacy

Suggested Time

3 sessions

Note: This lesson may be completed on non-consecutive days, if necessary.

Grade Level

Grades 9–12

Essential Questions for Students

- How can a price influence a person's decisions?
- What is the anchoring effect?
- In what ways can understanding the influences of prices make people more informed consumers?

Materials

All Sessions

- How We are Affected by Price Implementation Guide
- Computer with projector, television, or interactive board

Session 1

- How We are Affected by Price PowerPoint Slides 1–10
- Name the Price Activity Slips—cut into slips and shuffled to make the order random, divide the number of students in the class by four to determine the number of copies and round up, as needed (i.e., if there are 25 students in the class, make 7 copies)
- Calculator—four (optional)
- **Name the Price Summary Information**—one per student (optional)

Session 2

- How We are Affected by Others PowerPoint Slides 11–14
- Buyers and Sellers—enough copies for each student to receive one card, cut into cards before the lesson
- Anchoring (and more) in Action—one scenario copy per group or per group member
- Devices with internet access for student use

Session 3

- How We are Affected by Price PowerPoint Slides 15–20
- Devices with internet access for student use
- **The Facts Behind Oil Prices** (available here)—one per student
- **Spotting Price Anchors and Influences Challenge Activity** (available here)—one copy per student

Background

Previous lessons in this series have explored the fundamental differences between traditional and behavioral economics, including how people are influenced by preference and by others. In this lesson, students learn about ways that people's decisions are influenced by price. They come to discover that when people are given a price in relation to an item, it can impact their perceived value of the item. This effect is called anchoring and is exhibited in a variety of settings beyond prices as well.

An understanding of anchoring and other concepts like it can be used to influence people's choices as consumers. For example, individuals who see a high price for an item are more likely to buy it when they see it later at a discount. Companies often use these strategies to encourage consumers to purchase goods and services. If students are able to recognize anchoring when it happens, they may be able to make more informed spending choices in the future.

Using this Guide

The goal of this guide is to prepare educators to use this digital lesson bundle. It provides slide-by-slide instructions to ensure educators are prepared to explain, discuss, and facilitate the hands-on content in the presentation. The presentation is designed to cover four class sessions, but it can be flexible depending on the students' needs and the time available. Additional extension ideas are included at the end of the manuscript.

The accompanying presentation was created with PowerPoint so that it can be used in a variety of classrooms. If you are displaying the slides on a projector or television, simply progress through the PowerPoint by clicking to advance. All of the interactive aspects of the presentation are set to occur on click. This may include images, text boxes, and links that will appear in your web browser. If you are using an interactive whiteboard, tap on each slide with your finger or stylus to activate the interactive aspects of the presentation. In the notes for each slide, there will be information on how to proceed.

Students begin this series of lessons by participating in a price anchoring experiment in which they recommend a price at which a school club should sell drink tumblers. After learning that students were presented with different information, they divide into groups to determine what impact the information provided to students had on their responses. Students then watch a video to learn about anchoring and its impact on consumers. In the next session, students participate in a second price setting activity but without an anchor. In doing so, they discover that prices are easier to determine when you are familiar with the good or service. Students then apply what they have learned in small groups as they consider distinct examples of prices influencing decisions and present their findings to the class. After this, students learn how gas prices are determined and make connections to the anchoring effect. Finally, students are challenged to locate examples in which prices might influence their decisions and/or how companies use prices to influence customer choices.

Procedure

SESSION 1

ENGAGE | Slides 1–4

Overview

You will begin this session by providing students with a hypothetical situation in which a group at the school has asked for advice on how much to charge for an item they plan to sell. Students will receive information about the item on a slip of paper, but not every student will get the same information. Some will be told how much the group might pay for the items, some will learn what other schools pay, others will find out what a similar item sells for, and the final set will receive no price information. Once the information is collected, students will compare their answers and tabulate ranges and averages.

Slide 1

- Present students with the following hypothetical scenario: A club at your school is considering selling items as a fundraiser. They have asked your class to advise them on how much they should charge.
- Let students know that you will be handing out a slip of paper with the information that was provided to you. Tell them to read it and fill in the information.
- Distribute a section from Name the Price to each student. As you pass out the slips of paper, do not draw attention to the fact that there are different versions being given to students at random.
- Collect the completed slips from the students.
- Ask several students to share the price they wrote on their slip of paper and why they selected it.

Slide 2

- Reveal that there were four different scenarios provided to the students.
- Click to reveal one scenario at a time. Ask students to raise their hands to determine who had each scenario.
- Direct students to gather in separate areas in the room with the students who had the same scenario they had. Invite them to discuss the prices they wrote down and their reasons.
- While students are talking, sort the slips of paper by the scenarios. Give each group the responses for another group. For example, the group who responded to scenario A could receive the responses from scenario D.
- Invite students to review the responses and determine:
    - The lowest price given
    - The highest price given
    - The average or mean response (Optional: Provide a calculator so students can total the answers and divide by the number of responses.)
- Challenge students to consider whether the average price given by students with the other scenarios will be higher or lower than the one they calculated and why.

Slide 3

- Let students know that you are going to compare the responses given by each group. If desired, distribute a copy of the Name the Price Summary Information to each student.
- Invite a member of each group to share the lowest, highest, and average price for the responses they reviewed.
- Fill in the table on the screen and/or direct students to complete their own paper copies.
- Discuss similarities and differences in the answers and invite students to explain the patterns they observed.

Slide 4

- Lead a discussion about the factors that influenced the prices students provided. Possible factors might include:
    - Desire to make a profit from the sale (especially scenario B)
    - Product features (especially scenario C)
    - Familiarity with the product and price (especially scenario C)

LEARN | Slides 5–10

Overview

You will continue the lesson by introducing students to the concept of anchoring. Students watch a video to learn about the concept. They reconsider the pricing scenarios and their responses and discuss how anchoring may have impacted their responses. The session concludes with students taking on the role of either a buyer or a seller and providing a price for a good or service. Students then find classmates with a similar description and compare their responses. They learn that anchoring tends to have a greater impact when people do not know how to value the item but that even professionals with expertise in a field can be swayed by an anchor price.

Slide 5

- Play the video.
- Invite students to suggest how anchoring could have played a role in the prices each group provided in the opening exercise. If needed, refer back to the average price for each scenario.

Slide 6

- Share that behavioral economists have performed numerous versions of this experiment. In nearly every case, when prices are provided, the responses tend to be closer to the amount provided than when no price is given.

Slide 7

- Tell students that you are going to do a short activity in which they come up with the price of a good or service. You are going to give each of them a description, and no one will be given any price or anchor. If they are a buyer, they will write down the price they would pay for the good or service. If they are a seller, they will write the price they would request. Let students know that it is okay to guess at a price if they are uncertain.

- Distribute a card from Buyers and Sellers to each student. It is okay if more than one student gets the same card, just make sure that each buyer has at least one corresponding seller. If needed, take a card for yourself to even out the pairs/groups.
- Once students have answered the question, direct them to find the other buyer(s) and/or seller(s) with the description that matches theirs. A total of six groups should be formed.
- Ask each group of buyers and sellers to compare the prices they provided. Invite a volunteer from each group to share whether the prices were similar or different and by how much.
- Challenge students to rank the goods or services from easiest to price to hardest to price.

Slide 8

- Read the statement aloud and ask students how they would complete the sentence and why.
- Click to reveal the correct answer, "more." Explain that people generally have a harder time putting a price on items with which they are unfamiliar. For example, students are likely to have a harder time coming up with a realistic price for a home since this is a good which few students are familiar.

Slide 9

- Engage students in a conversation about how a business or company providing consumers with a price as an anchor could influence the consumer. Prompt students with the questions shown on the slide.

Slide 10

- Tell students you want them to consider an example of anchoring and how it could impact a consumer.
- Click to share the scenario. Point out that they have been presented with an anchor price for the shoes of $200.
- Click to provide the rest of the scenario. Ask students to respond to the question. Discuss possible reactions. In most cases, consumers who see a high price anchor and then see a lower price view the second price to be a "deal" and are more inclined to want to buy them.
- Challenge students to consider how this knowledge could be used by companies to influence people to buy items.

SESSION 2

APPLY | Slides 11–14

Overview

Students consider ways that price anchors and other factors related to price can influence people's decisions. Groups of students consider a scenario and later report back to the class with their conclusions.

Slide 11

- Inform students that they will be breaking into groups to consider various scenarios in which behavioral economic concepts dealing with price might influence a person's decision.
- Let them know you will preview the four scenarios and let them create small groups with others who wish to explore the same topic.

Slide 12

- Briefly introduce scenario 1.
- Click to show and then describe scenario 2.

Slide 13

- Share scenario 3.
- Click to show and then describe scenario 4.
- Direct students to form small groups. It is okay if more than one group selects the same scenario.
- Distribute scenario descriptions from Anchoring (and more) in Action to each group. Share your expectations regarding time to complete the activity and plans to share results with the class.

Slide 14

- Invite each group to share what they learned and discovered.
- Engage students in a discussion of each scenario after all groups with that topic are done presenting. Reference the Anchoring (and more) in Action Facilitation Guide for additional insight on each scenario.

SESSION 3

CONNECT | Slides 15–19

Overview

Students research current gas prices in the area and across the country. They watch a video to learn what influences gas prices and consider how price and behavioral economic concepts influence various market participants. Students then connect their ideas back to the initial anchoring experiment.

Slide 15

- Ask students how much a gallon of gas costs in your area. Students who drive will likely be able to answer this question more easily than those who do not. An easy way for students to locate current gas prices is to conduct a Google search using "gas prices near me."
- Invite students to describe whether they think current gas prices are high, low, or about average and justify their responses.
- Let students know that you did not provide them with a picture of a gas price sign on purpose. You also did not ask if they thought the current price was higher or lower than a certain amount. Challenge students to explain this purposeful choice.
- Remind students about what they learned in previous sessions about anchoring and let them know you did not wish to influence their responses by providing an anchor.

Slide 16

- Inform students that gas prices often vary depending on where you live in the country. You can find out the prices from a number of sources, including AAA and GasBuddy.
- Click on each image, one at a time, and show students the maps which are displayed.
- Invite students to pair with a classmate and examine one of the maps provided or similar one of their choosing.
- Direct them to do one of two things:
    - Draw at least two conclusions about gas price trends in the country.
    - Develop a plausible scenario in which a person might have an opinion or make a decision based on gas prices.
- If needed, provide an example, such as, "If I lived in _____ and visited ____, I would think the gas prices are much higher. If so, I might _____."
- Allow time for several volunteers to share what they found.

Slide 17

- Tell students that gas prices don't just vary regionally; they can also change quite a bit over time. Some changes can happen very quickly, while others are more gradual. Current events, for example, can have an impact on gas prices.

Slide 18

- Explain that many more factors can influence gas prices.
- Distribute a copy of The Facts Behind Oil Prices to each student.
- Inform students that you are going to play a video about gas prices. Direct them to use The Facts Behind Oil Prices handout to take notes during the video. Ask them to identify costs as they are explained.

Slide 19- Futures Spotlight

- Click to play "The Story of Oil" video (approximately 5 minutes).
- Challenge students to consider how price and behavioral economic concepts influence various market participants in the futures industry. In particular, ask students to consider how anchors might impact hedgers and speculators.
    - **Note:** Students might need a refresher about the roles of hedgers and speculators which they learned about in lessons one and two, respectively. If that is the case, explain to them:
        - Hedgers are one of the primary participants in the futures markets. A hedger is any individual or firm that aims to manage risk by trading a physical commodity now to lock in a price for that commodity at a later date.
        - Speculators are another primary participant in the futures market. A speculator is any individual or firm that assumes risk in hopes of making a financial gain. Speculators can achieve these profits by buying low and selling high. In the case of the futures market, they could just as easily sell first and later buy at a lower price.
        - For more information on hedgers and speculators, you can view the following Futures Fundamentals resources that were featured in the Econ Essentials DLB #2- How We Are Affected by Preference.
- Direct students to connect their ideas back to the initial anchoring experiment in which prices influenced the price they recommended for a tumbler.

EXTEND | Slide 20

Overview

Students extend their learning by looking for ways that prices influence consumers in day-to-day interactions.

Slide 20

- Distribute a copy of the **Spotting Price Anchors and Influences Challenge Activity** to each student.
- Let students know when and how they will be sharing what they discovered.
- (OPTIONAL) Provide an online option for students to share photos of examples they find such as a shared drive, social media tag, or another form of submission/sharing.
- (OPTIONAL) Allow time on a future date for students to share and discuss the price anchors they found.

National Content Standards

- Voluntary National Content Standards in Economics from the Council for Economic Education
    - Standard 4: Incentives (Grade 12 Benchmark 1): Acting as consumers, producers, workers, savers, investors, and citizens, people respond to incentives in order to allocate their scarce resources in ways that provide them the highest possible net benefits.
- National Standards for Personal Financial Education from the Council for Economic Education and Jump$tart Coalition for Personal Financial Literacy
    - Spending (12.2): Consumer decisions are influenced by the price of products or services, the price of alternatives, the consumer's budget and preferences, and potential impact on the environment, society, and economy.
- National Standards for Family and Consumer Sciences Education from the National Association of State Administrators of Family and Consumer Sciences
    - Consumer and Family Resources (2.7): Demonstrate the ability to use knowledge and skills to manage one's financial resources effectively for a lifetime of financial security.
    - Consumer Services (3.3): Analyze factors in guiding development of long-term financial management plans.
- The College, Career, and Civic Life (C3) Framework for Social Studies State Standards from the National Council for the Social Studies
    - Economic Decision Making (D2.Eco.1.9-12) Analyze how incentives influence choices that may result in policies with a range of costs and benefits for different groups.
    - Exchange and Markets (D2.Eco.6.9-12): Describe the possible consequences, both intended and unintended, of government policies to improve market outcomes.
    - Economic Decision Making (D2.Eco.1.6-8) Explain how economic decisions affect the well-being of individuals, businesses, and society.
    - Psychology (D2.Psy.2.9-12) Investigate human behavior from biological, cognitive, behavioral, and sociocultural perspectives.

Name the Price Activity Slips

Name the Price: The item to be sold is a 20-ounce thermal tumbler. It comes in stainless steel or colors. Our plan is to have both the stainless steel one and one in our school colors. It will have the logo on it. There is a flip top lid so that drinks won't spill. We have asked other schools, and they are selling similar tumblers for about $19.

How much should we charge for each tumbler? Why did you pick this price?

Name the Price: The item to be sold is a 20-ounce thermal tumbler. It comes in stainless steel or colors. Our plan is to start with the stainless steel one and add the school logo in color. If we order 24 of them, we can get them for $11.49 each with the logo. If we order 100, the price drops to $9.56. There is also a $40 setup charge for the logo. They are currently running a special with free shipping.]

How much should we charge for each tumbler? Why did you pick this price?

Name the Price: The item to be sold is a 20-ounce thermal tumbler. It promises to keep beverages hot for 8 hours or cold for at least 12. It comes in stainless steel or colors. Our plan is to have both the stainless steel one and one in our school colors. A very similar name brand tumbler costs $29.99.

How much should we charge for each tumbler? Why did you pick this price?

Name the Price: The item to be sold is a 20-ounce thermal tumbler. It promises to keep beverages hot for 8 hours or cold for at least 12. It comes in stainless steel or colors. Our plan is to have both the stainless steel one and one in our school colors. A very similar name brand tumbler costs $29.99.

How much should we charge for each tumbler? Why did you pick this price?

Name the Price Summary Information

GROUP	SCENARIO	LOWEST PRICE	HIGHEST PRICE	AVERAGE PRICE
A	The item to be sold is a 20-ounce thermal tumbler. It comes in stainless steel or colors. Our plan is to have both the stainless steel one and one in our school colors. It will have the logo on it. There is a flip top lid so that drinks won't spill. **We have asked other schools, and they are selling similar tumblers for about $19.**			
B	The item to be sold is a 20-ounce thermal tumbler. It comes in stainless steel or colors. Our plan is to start with the stainless steel one and add the school logo in color. If we order 24 of them, we can get them for $11.49 each with the logo. **If we order 100, the price drops to $9.56. There is also a $40 setup charge for the logo.** They are currently running a special with free shipping.			
C	The item to be sold is a 20-ounce thermal tumbler. It promises to keep beverages hot for 8 hours or cold for at least 12. It comes in stainless steel or colors. Our plan is to have both the stainless steel one and one in our school colors. **A very similar name brand tumbler costs $29.99.**			
D	The item to be sold is a 20-ounce thermal tumbler. It promises to keep beverages hot for 8 hours or cold for at least 12. It comes in stainless steel or colors. Our plan is to have both the stainless steel one and one in our school colors. There is a flip top lid so that drinks won't spill, as well.			

Buyers and Sellers

BUYER You want to buy a **house—**preferably one with three bedrooms, two bathrooms, and a nice yard. You'd like it to be in a good neighborhood. How much are you willing to pay for it?	**SELLER** You are selling a **house** with three bedrooms, two bathrooms, and a nice yard. It is in a good neighborhood. How much would you sell it for?
BUYER You are tired of folding laundry! If someone had an **automatic laundry folder** you would want to buy it. How much are you willing to pay for it?	**SELLER** You just invented an **automatic laundry folder**. It should save people a ton of time when doing laundry. How much will you sell it to them for?
BUYER Someone has found the **secret formula** to keep you from aging. If you take it, you can stay young forever. How much are you willing to pay for it?	**SELLER** You just found the **secret formula** to keep people from aging. If they take it, they can stay young forever. How much will you sell it for?
BUYER You need someone to dress in a **clown costume** and stand on a corner with a sign for four hours to promote an event. How much are you willing to pay someone to do it?	**SELLER** You have been asked to dress in a **clown costume** and stand on a corner with a sign for four hours to promote an event. How much would you need to be paid in order to do it?
BUYER You need someone to **watch your dog** while your family goes away for the weekend. How much are you willing to pay someone to do it?	**SELLER** A neighbor needs you to **watch their dog** for the weekend. How much would you need to be paid in order to do it?
BUYER You see a listing in an online marketplace for **three hoodies**. They are in your size and in good shape. The seller is nearby. How much would you pay for them?	**SELLER** You have **three hoodies** that you have outgrown. They are still in good shape. You want to sell them online. How much would you ask for them?

Anchoring (and more) In Action

Scenario 1: Negotiating a Price

The following is an excerpt of an article on how lawyers can take advantage of concepts from behavioral economics. After reading it, consider ways or situations in which this could happen in a variety of contexts. Be prepared to share examples with the class. If desired, conduct some online research to learn more about the role of anchoring when negotiating a price.

> "In negotiations, taking advantage of the anchoring effect means acting quickly, perhaps by making an early offer designed to anchor the final results, or perhaps by opening negotiations with a discussion designed to expose the other party to higher or lower numbers generally. Anchoring doesn't necessarily have to target the final result. You might seek to anchor the inputs to the other party's decision-making processes, such as their view of your client's cost of capital, litigation costs, or other factors. Also consider the setting for negotiations. Conducting a meeting in a cheap coffee shop might create mental associations that help you negotiate a lower price, whereas meeting in an expensive restaurant might have the opposite effect. In any negotiation, anchoring efforts should occur early in the process, before the other party has an opportunity to anchor based on its own decision-making processes or other experiences."
>
> From the American Bar Association, "An Introduction to Behavioral Economics and Negotiations," 2017, by Warren E. Agin

Anchoring (and more) In Action

Scenario 2: JCPenney

The following is an excerpt of an article on what happened when JCPenney changed its pricing strategy. After reading it, look up additional information about this change. Share what you find and consider how such a change would impact you as a shopper. Are there stores or websites you are familiar with that use a similar strategy? Which strategy do you prefer—a set price or an inflated price with a discount? Be prepared to summarize your discussion with the class.

> A strategic mistake made six years ago by celebrity CEO Ron Johnson continues to haunt popular retailer JCPenney, as evidenced by the ongoing sluggish sales growth and store closings that have made the company smaller—a fraction of what it once was.
>
> Meanwhile, investors have been bailing out from the company's stock, which trades in the middle single digits—a long way from the upper 30s, where it was trading back in 2012.
>
> JC Penney's woes began with a change in the retailer's pricing strategy—replacement of coupon sales with everyday low prices.
>
> The old pricing strategy has been popular among retailers, because it hypes shoppers, making them feel smart and encouraging them to talk with other consumers about it. That's how hype and buzz for merchandise begins and spreads in the shopper community.
>
> JCPenney abandoned this strategy after Ron Johnson assumed leadership of the company, modeling the company's stores after those of Apple. The company eliminated coupon discounts, changed the floor merchandise, and added boutiques/streets.
>
> Apparently, JCPenney's strategic mistake came from a misunderstanding of a crucial difference between retail stores and Apple stores: Hype! Apple's Word-of-Mouth (WOM) and buzz marketing machine—and unique products—already hype its customers. They know what they want; they don't need conventional sales promotions to be lured to the stores.
>
> from "A Strategic Mistake That Still Haunts JC Penney," by Panos Mourdoukoutas, Forbes, 2017

Anchoring (and more) In Action

Scenario 3: The First iPad

Watch the video online of Steve Jobs introducing the first iPad in 2010. Watch the first few minutes then fast forward to about one hour and ten minutes (1:10). After showing what the iPad looks like and what it does, Mr. Jobs discusses the price at which it will be offered with a rather dramatic introduction of the starting price. How and why do you think anchoring was used in the presentation? Look for and locate at least one other example of a company, product, service, or brand using anchoring to influence customers' opinions about price. Be prepared to share what you discovered with the class.

Anchoring (and more) In Action

Scenario 4: Freemium Pricing

The following is an excerpt from Investopedia's information on freemium pricing. After reading it, brainstorm a list of products or services you are familiar with that use a freemium pricing strategy. Then, consider these questions: Do these strategies work? Why or why not? How could anchoring a customer to an initial price of $0 impact their decision to spend money in the future? If you were starting a business, would you use a freemium model? Be prepared to summarize your discussion with the class.

> A combination of the words "free" and "premium," the term freemium is a type of business model that involves offering customers both complementary and extra-cost services. A company provides simple and basic services for free for the user to try; it also offers more advanced services or additional features at a premium.
>
> Under a freemium model, a business gives away a service at no cost to the consumer as a way to establish the foundation for future transactions. By offering basic-level services for free, companies build relationships with customers, eventually offering them advanced services, add-ons, enhanced storage or usage limits, or an ad-free user experience for an extra cost.
>
> The freemium model tends to work well for Internet-based businesses with small customer acquisition costs, but high lifetime value. The freemium business model allows users to utilize basic features of a software, game, or service free, then charges for "upgrades" to the basic package. It is a popular tactic for companies just starting out as they try to lure users to their software or service.
>
> From "Freemium," by Troy Segal, *Investopedia*, 2019

Anchoring (and more) In Action Facilitation Guide

Scenario 1: Negotiating a Price

Overview: Students read an excerpt of an article on how lawyers can take advantage of concepts from behavioral economics. They consider ways or situations in which this could happen in a variety of contexts and may do additional research to learn more about the role of anchoring when negotiating a price.

Facilitation: If needed, use the following as examples of situations in which people might be influenced by anchoring when negotiating a price:

- Buying a car—sticker price or MSRP
- Salary negotiations—the first number mentioned (hourly rate, salary offer, current salary)
- Online sales marketplace—$X OBO (or best offer)

Scenario 2: JCPenney

Overview: Students read an excerpt of an article on what happened when JCPenney changed its pricing strategy. After reading it, they look up additional information about this change and consider how such a change would impact them as consumers. They answer the questions: Are there stores or websites you are familiar with that use a similar strategy? Which strategy do you prefer—a set price or an inflated price with a discount?

Facilitation: Students may or may not be familiar with JCPenney. Point out stores that frequently reduce the price on items and make it hard to know what the best price is. Examples include most furniture stores, Kohls, Claire's. Encourage students to discuss the influence that seeing something "on sale" has on them as consumers. Have they bought items they were not originally planning to but simply because the deal was "too good to pass up?"

Scenario 3: The First iPad

Overview: Students watch an excerpt of Steve Jobs' introducing the first iPad in 2010. Students answer the following: How and why do you think anchoring was used in the presentation? Look for and locate at least one other example of a company, product, service, or brand using anchoring to influence customers' opinions about price.

Facilitation: Discuss the reason anchoring was used. In particular, the initial price of $999 was used to make the actual starting price of $499 look like a bargain. Consider examples provided by the students. If needed, offer an additional example. When Apple and other companies release new devices, they often provide a "starting at" price. This price is generally the lowest one available and is often for the device with the lowest amount of memory or least features. How could this lower starting price impact consumers? Also, consider pointing out that these prices often end in 99. Ask students how a price anchor of $199 might influence consumers differently than $200.

Anchoring (and more) In Action Facilitation Guide

Scenario 4: Freemium Pricing

Overview:	Students read an excerpt from Investopedia's information on freemium pricing. After reading it, they brainstorm a list of products or services they are familiar with that use a freemium pricing strategy. They then consider these questions: Do these strategies work? Why or why not? How could anchoring a customer to an initial price of $0 impact their decision to spend money in the future? If you were starting a business, would you use a freemium model?
Facilitation:	When discussing freemium pricing, point out that this is what is considered a "zero anchor." However, the price often does not remain at zero. Many people choose to upgrade or turn a free service into a paid one. Another example that is similar to this is the "free trial period." Ask students to consider a scenario in which they get three months of a music streaming service for free. After the trial period is over, they will be charged a set amount each month. How likely are they to cancel (or remember to cancel) the service when the three months is done? If desired, relate this back to one of the behavioral economic concepts mentioned in an earlier lesson, loss aversion, in which people don't like to give up something they already have.