

Challenge Activity

Unit Title

How We are Affected by Preference

Activity Title

Behavioral Economics in Action

Expected Duration

30–45 minutes

How do businesses use loss aversion and/or the endowment effect to their benefit?

Overview

In this challenge activity, you will be examining the business model and/or advertising strategy of a company and explaining how it relates to loss aversion and/or the endowment effect.

What You Need

- **Behavioral Economics in Action** capture sheet

What You Do

1. Reflect on the scenarios you discussed in class and how loss aversion and/or the endowment effect impacted each one.
2. Consider the business model and/or advertising strategies of several companies with which you are familiar. Try to consider different types of businesses.
3. Look for ways that loss aversion and/or the endowment effect might:
 - a. connect to how the company conducts business or advertises its products or services
 - or
 - b. be used by the business to improve sales or profits
4. Describe your conclusions on the capture sheet.
5. Be prepared to discuss your conclusions with the class.

Name of the business:

Brief description of the company's product(s) and/or service(s):

Do you think the company uses loss aversion and/or the endowment to impact its customers or sales?
If so, please explain.

Describe how the company could use loss aversion or the endowment effect to improve its sales and/or profits going forward.