

1. Context and issues

Goal of the paper: show that we are lured by the FREE label.
Presentation of a set of experiments where the behaviour observed cannot be accounted for with the standard micro-economic theory and is best accounted for by the irrational appeal of FREE.

Zero hypothesis: for a rational agent, the decision processes for choosing whether to take an item or not should be the same whether the price is zero or not: it's always a matter of comparing costs and benefits for each alternative.

Results: People are shown in several ways not to respect these rational principles. The experiments show instances of preference reversal. The author concludes that the appeal of FREE is an instance of predictable irrationality.

2. The experimental method

Lindt vs. Hershey's Kisses: evaluation of the comparative value of these two items 'revealed' in several choice conditions.

Condition 1: Lindt at 15 cents, Hershey at 1 cent
Result: 73% choose the Lindt

Condition 2: Lindt at 14 cents, Hershey at 0 cents
Result: 31% choose Lindt

Preference reversal from condition 1 to condition 2.

Question: what causes this reversal? Good reasons or irrational causes?
From condition 1, we can deduce that a Lindt chocolate is worth at least 14 cents more than a Hershey chocolate for 73% of the subjects. Not so in the second condition. (Assumption: being one cent richer does not make these 14 cents radically more valuable).

⇒ Refutation of the zero hypothesis?

The zero hypothesis: zero is just another price when put in a rational analysis of cost and benefits.

Controlling for confounding factors

Is the effect due to value of Zero or to the discount by one cent?

First control: discounting by one cent without getting to zero.

Condition 3: Lindt at 27 cents vs. Hershey at 2 cents

Condition 4: Lindt at 26 cents vs. Hershey at 1 cent

Result: no preference reversal.

Is the effect due to the cost of taking one's purse out?

Second control: keep constant, across conditions, the cost of taking one's purse out.

Condition 5 and 6: experiment ran in a situation where subjects already have their purse out, viz. in the cafeteria at the cashier.
Result: same reversal of preference as in conditions 1 and 2.

Is the effect restricted to exchange involving money? Or can we generalize it with “getting something without an immediate material cost”. Endow children with three Kisses in a Halloween party.

Third control: run similar conditions with bartering.

Condition 7: big snicker bar for two Kisses vs. small snicker for one Kisse

Result: preference for the big snicker at the price of two

Condition 8: big snicker bar for one Kiss vs. small snicker bar for free.

Side notes: the pros and cons of field and lab experiments

Illustrations of the ecological validity and worldly relevance of the findings:

- Amazon in France
- AOL monthly subscription
- And several personal anecdotes

Consequences for marketing and policy-making alluded to at the end of Ariely's chapter.

3. Theoretical contributions

Discovery of a framing effect? Does it fit a comprehensive model, or is it just a supplementary bias on the ever expanding list of biases?

Does Ariely answers his own question: “what is it about zero cost that we find so irresistible” ?

- ⇒ Appeal to **loss aversion**: an item with a price always involves some loss.
“I think it's because humans are intrinsically afraid of loss”
- ⇒ Ignorance of the **opportunity costs**.
Illustration with time spent queuing and forced choice where one comes to abandon a better option.
(but why with more with zero than with strictly positive prices?)
- ⇒ Is there a difference between the zero and the SALE framing effect? To evaluate the value of an item, we use its ‘usual’ price.
- ⇒ “Zero is a source of irrational excitement”, while it should be just another price.