

Buy It Now, or Later, or Not

Loss Aversion in Advance Purchasing

Senran Lin*

ABSTRACT

I explore the effect of a consumer's belief-based loss aversion, as in [Kőszegi and Rabin \(2009\)](#), on the advance-purchase problem. This result indicates that loss aversion increases the price at which the consumer is willing to pre-purchase. This implies that loss aversion can lead to risk-seeking. Moreover, I endogenize the seller's price-commitment behavior in the advance-purchase problem. The result shows that the seller commits to his spot price even if he is not obliged to, which was treated as given in previous literature. Further discussion suggests that earnings from providing an advance sale are greater if the consumer can commit ahead to future reference levels, and the seller's earnings from providing an advance sale are greater if the time between the two decision stages is long.

Key words: belief-based loss aversion, advance purchasing, reference-dependent utility

JEL classification: D11, D42, D91, L12.

*China Center For Behavioral Economics and Finance, Southwestern University of Finance and Economics. Email: senranlin@outlook.com.