The effect of odd pricing on demand

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Introduction
The practice of odd pricing in retailing is so prevalent that its efficacy is generally taken for granted. However, there is little reported evidence to support the underlying assumption of odd pricing; namely, that prices set just below the nearest round figure produce higher than expected demand at that level. This paper reports the results of a study designed to test this assumption by examining the effect of odd pricing on demand for a range of products at different price levels.

There is no general agreement on the definition of odd prices, and they are sometimes referred to as magic prices, charm prices, psychological prices, irrational prices, intuitive prices or rule-of-thumb prices (Boyd and Massy, 1972; Dalrymple and Thompson, 1969; Gabor, 1977; Kreul, 1982; Monroe, 1990; Rogers, 1990; Sturdivant, 1970). However, their general characteristic is that they are set just below the nearest round figure; for example, $4.99 instead of $5.00, or $19.95 rather than $20.

There is little agreement about the origin of odd pricing, but evidence of it can be traced back more than 100 years (Schindler and Wiman, 1989). One theory is that odd pricing originated after fixed pricing became the norm in the USA, shortly after the end of the Civil War. It was only after even, or round, prices became established that odd pricing, as it is now known, could emerge as a common retailing practice. Before that time, prices were determined by haggling between consumers and retailers (Georgoff, 1971).

The standardization of currency in America may also have had an effect. Imported British goods underwent a currency conversion of the British pound sterling into dollars, often giving British goods an odd price ending. As a result of the quality attributed to British goods, odd prices became associated with superior products. In the late 1800s American retailers would often attach an odd price ending to domestic goods because of the high quality image associated with odd priced imported products (Georgoff, 1971).

Another commonly cited explanation for the introduction of odd pricing is that it arose as a measure to help combat theft by employees (Harper, 1966; Högl, 1988; Sturdivant, 1970; Twedt, 1965). This is widely believed to have begun earlier this century when Macy’s New York department store introduced 99 cent sales. Odd prices were adopted to force salespeople to issue change and thereby make it difficult for them to pocket the customer’s payment without recording a sale (Kreul, 1982; Rudolph, 1954). The idea was considered novel by...
consumers and consequently had a positive effect on sales. This convention was subsequently adopted by retailers around the world (Gilmour, 1985).

Changes in retailing methods and technology mean that the conditions which stimulated the emergence of odd pricing no longer exist. Nevertheless, retailers’ use of the technique of odd pricing is now extremely common (Schindler and Wiman, 1989).

Prevalence of odd pricing
The noticeable characteristic of odd pricing is the sheer prevalence of this practice in comparison to even pricing, and in particular, the dominance of prices ending in the digit 9.

In 1948, an analysis of 3,025 retail store advertisements in newspapers in 37 American cities revealed 64 per cent of prices ended in odd digits (Rudolph, 1954). Another early general observation of retail food prices showed that prices ending in 9 were most popular, with prices ending in 5 being second in popularity (Printers Ink, 1954; Twedt, 1965). In fact, the 9s and 5s often accounted for 80 per cent or more of retail prices (Friedman, 1967).

A more recent extensive analysis of scanner data from a major American supermarket chain revealed that over 80 per cent of the store’s prices ended in the digit 9 (cited in Schindler and Wiman, 1989). Högl (1988) reported a similar situation in Germany, where most supermarket prices lie just below a Deutsche Mark amount (i.e. 99 Pfennigs, DM 4.99). The same pattern was also found in New Zealand in a study which estimated that around 87 per cent of advertised prices used odd endings, with around 60 per cent of these prices ending in the digit 9 (Holdershaw, 1995).

Rationale for odd pricing
The rationale for odd pricing is that it creates greater than expected demand at these prices. In other words, odd pricing is assumed to produce a “kink” in the expected demand curve for the product concerned. This is illustrated in Figure 1.

The usual explanation proposed for this effect is that by setting a price at, say $39.95 rather than $40.00, an illusion is created which makes the product seem much cheaper to consumers than the nearest (and higher) round figure. This illusion of cheapness then triggers an enhanced buyer response (Boyd and Massy, 1972).

Brenner and Brenner (1982) suggest that this phenomenon is the result of a biological constraint, namely, consumers’ limited capacity for storing directly accessible information. They believe that consumers exposed to price information store only the more valuable parts of the message they receive, the first digits of a number. For instance, when a price is $299, the digit 2 is more significant as information than the first 9, which in turn is more significant than the next 9. Thus consumers will recall that the price is $200, then maybe that it is $290, but rarely that it is $299. The reason offered for not rounding the three digits up to $300 is based on memory processing time. Rounding up
The effect of odd pricing on demand involves an additional decision compared with storing the integer part of the number.

However, while the existence of a price illusion is a plausible explanation for the effect of odd pricing, there is little evidence to support it. A study by Georgoff (1971) found that, although a price illusion may occur for certain products among certain groups of consumers, any net effect on sales was weak or confounded by situational and intervening variables. A later study by Lambert (1975) suggested that lower price illusions were associated with odd prices under some circumstances, but Dodds and Monroe (1985) found no evidence of differences in consumers’ perceptions of quality, value, or willingness to buy for products priced at odd and even prices.

Other explanations for the effect of odd pricing are that it suggests to consumers that goods are marked at the lowest possible price (Harper, 1966), or that consumers have become conditioned by retailers to expect odd prices. A study by Gabor and Granger (1964) provides some support for the latter explanation. For one of two products tested in this study, consumers’ purchase intentions were higher when presented with an odd price than with the next lowest price point.

Thus the cause of the odd pricing effect, if it does in fact occur, is debatable.
Effect of odd pricing on demand

The earliest documented study into the effect of odd pricing on demand was conducted in the 1930s by a large American mail order company. The company suspected that the effectiveness of its odd-cent pricing resulted from “habit and inertia” (Ginzberg, 1936). To investigate this assumption, even pricing was used for a representative sample of items in several regional issues of one of the company’s catalogues. The usual odd cent prices were used in its other catalogues. The company was able to account, with a reasonable degree of certainty, for any variables which may have influenced demand, other than price, by a detailed review of sales activities in the preceding and present period.

The results of this experiment were inconclusive. Even pricing greatly increased the sales of some items, cut the sales of other products in half, and left the sales of some items unchanged. An executive of the firm estimated that the sales losses were about equal to the sales gains.

In another American example, a department store chain successfully shifted from odd to even pricing (Dalrymple and Thompson, 1969). The store, which had traditionally used a 95 cent price ending on many items, observed no adverse sales effects after it changed to even dollar pricing. Nevertheless, although apparently satisfied with the new even pricing policy, the store continued to use odd pricing in budget departments and on sale merchandise (Dalrymple and Thompson, 1969).

More recently, a positive effect of odd pricing on sales when popular brands of margarine were discounted and advertised as weekly specials has been reported (Nagle, 1987). Unit sales for one brand increased by 194 per cent when its price was discounted from 83 cents to 63 cents, but increased by 406 per cent when discounted to 59 cents. A second brand showed a similar effect, with a 65 per cent increase in unit sales when discounted from 89 cents to 71 cents and a 222 per cent increase when discounted to 69 cents. Unfortunately, without examining the results together with other variables such as promotional activity and competitors’ activities, it is not possible to conclude that odd pricing alone was responsible for the disproportionate increase in sales when prices were discounted to a number ending in 9. Nevertheless, these findings are consistent with those of a study by Schindler and Warren (1988) in which subjects were asked to select items from a simulated restaurant menu. The authors concluded that pricing an item just below a round number can increase its likelihood of being selected to a greater extent than would be expected on the basis of the few cents involved.

By contrast, a New Zealand study reported by Holdershaw (1995) revealed no difference in the purchase rates of two samples of consumers exposed to a mail order catalogue which differed only in the pricing of the 42 products included. Half of the catalogues featured even dollar prices, the other half showed the same products at slightly cheaper odd prices with 95 cent price endings. The proportion of consumers ordering was 9.8 per cent from the
The effect of odd pricing on demand

Overall, the findings of research into the effects of odd pricing on demand have been mixed and inconclusive. In some instances odd prices appear to have increased demand for items, while in other instances demand was reduced, and for other products no effect was observed. Clearly, the efficacy of odd pricing remains unproven.

In summary, there is widespread use of and belief in odd pricing, and no shortage of anecdotal evidence to support this practice. Perhaps surprisingly, however, there is little empirical evidence of its effectiveness. As Holloway stated, "It is interesting that a strategy so widely used and accepted by academicians has so little proof behind it" (cited in Schindler and Wiman, 1989, p. 107).

Method
The research reported in this paper involved estimating a demand curve for each of six different products and investigating whether the expected odd pricing effect occurred. The process used was similar to the Gabor-Granger technique of pricing research, which involves showing respondents a product, then determining their purchase intentions at a number of prices. This technique produces the familiar downward sloping demand curve, thus enabling a measure of price sensitivity to be made at each point tested (Gabor and Granger, 1964).

In this study, however, instead of asking respondents to give their purchase intentions, the Juster scale was used to elicit their purchase probabilities at different prices. The Juster scale, illustrated in Figure 2, is an 11-point purchase probability scale which has been successfully used to predict consumer purchase rates for a range of items including durables, services and fast-moving consumer goods. Since its development in the 1960s, the Juster scale has consistently been shown to be a better predictor of consumer purchases than verbal buying intentions (Clawson, 1971; Day et al., 1971; Gabor and Granger, 1972/73; Gruber, 1970; Heald, 1970; Isherwood and Pickering, 1975; Juster, 1966).

Figure 2. The Juster purchase probability scale

| 10 | Certain, practically certain (99 in 100) |
| 9  | Almost sure (9 in 10)                  |
| 8  | Very probable (8 in 10)                |
| 7  | Probable (7 in 10)                     |
| 6  | Good possibility (6 in 10)             |
| 5  | Fairly good possibility (5 in 10)      |
| 4  | Fair possibility (4 in 10)             |
| 3  | Some possibility (3 in 10)             |
| 2  | Slight possibility (2 in 10)           |
| 1  | Very slight possibility (1 in 10)      |
| 0  | No chance, almost no chance (1 in 100) |
The sample for the study consisted of 300 respondents who were either mostly or jointly responsible for their household's shopping, selected by mall intercept in a Palmerston North shopping centre in September 1994. The response rate was 49 per cent, and the sample was randomly divided into three subsamples of 100, for reasons described subsequently.

Six products were tested in this study: a block of cheese, a frozen chicken, a box of chocolates, a hair dryer, an electric kettle and a blender. Two criteria were used to select these products. First, products with reasonably broad appeal were chosen so as to minimize the chance of a very high proportion of zero purchase probabilities. And, second, products were selected because their normal retail price coincided with four “critical” price levels identified by retailers. These “critical” price levels are under $10, $20, $50 and $100[1]. Retailers believe that these price levels are critical in the sense that exceeding them will result in a disproportionately high loss of sales, and that the effect of odd pricing at these levels is particularly strong.

Each respondent was shown a series of 18 showcards featuring these six products at three different prices, and asked to estimate their purchase probability for each product at each price. One of the three showcards for each product included a price slightly above an even price point (for example, $10.10), and one a price slightly below the same price point (for example, $9.90). These two prices were presented to all 300 respondents and served the purpose of creating top and bottom “anchor” points of the demand curve for the product concerned. The third showcard included either the appropriate even test price (for example, $10.00) or one of two odd test prices (for example, $9.99 or $9.95). Each of these three “test” prices was presented to a subsample of 100 respondents.

For two products at the $20 or dearer level, instead of testing the 99 cent odd price ending, which is less commonly used for higher prices, the slightly higher 5 cent price ending was tested (for example, $20.05). Although a 5 cent ending is not defined as “odd”, including this price provided another point on the demand curve and an independent test of the effect of varying the price by five cents around the even price concerned. The products and corresponding price points tested are shown in Table I.

<table>
<thead>
<tr>
<th>Product</th>
<th>Bottom anchor price ($)</th>
<th>Test prices</th>
<th>Top anchor price ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese</td>
<td>4.90</td>
<td>4.95</td>
<td>4.99</td>
</tr>
<tr>
<td>Frozen chicken</td>
<td>5.90</td>
<td>5.95</td>
<td>5.99</td>
</tr>
<tr>
<td>Chocolates</td>
<td>9.90</td>
<td>9.95</td>
<td>9.99</td>
</tr>
<tr>
<td>Hair dryer</td>
<td>19.90</td>
<td>19.95</td>
<td>20.00</td>
</tr>
<tr>
<td>Kettle</td>
<td>49.90</td>
<td>49.95</td>
<td>50.00</td>
</tr>
<tr>
<td>Blender</td>
<td>90.00</td>
<td>95.00</td>
<td>99.00</td>
</tr>
</tbody>
</table>

Table I. Products and prices tested
The six products were presented to respondents three times, in the same order. The first time, all of the lowest prices were presented, then all of the highest prices, and, finally, one of the three test prices for each product.

The test prices were assigned to respondents in such a way that 100 respondents were presented with each test price. To overcome the effects of order bias within subsamples, test prices were rotated among the three subsamples of respondents in the manner illustrated in Table II. Thus, respondents in Sample 1, for example, viewed the following test prices: cheese $4.95, chicken $6.00, chocolates $9.99, hairdryer $19.95, kettle $50.05, and blender, $99.

This process produced 300 purchase probabilities for each top and bottom “anchor” price and 100 purchase probabilities for each even and odd “test” price, for each of the six products involved. These purchase probabilities and their associated price points provided the means for estimating a demand curve for each product.

<table>
<thead>
<tr>
<th>Product</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low anchor price</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Sample 1</td>
<td>T1</td>
<td>T3</td>
<td>T2</td>
<td>T1</td>
<td>T3</td>
<td>T2</td>
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<tr>
<td>Sample 2</td>
<td>T2</td>
<td>T1</td>
<td>T3</td>
<td>T2</td>
<td>T1</td>
<td>T3</td>
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<tr>
<td>Sample 3</td>
<td>T3</td>
<td>T2</td>
<td>T1</td>
<td>T3</td>
<td>T2</td>
<td>T1</td>
</tr>
<tr>
<td>High anchor price</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

**Note:** *high and low anchor prices were presented to all respondents
T1 = test price 1, T2 = test price 2, T3 = test price 3

**Table II.**

Rotation of test prices

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**Results**

Before estimating the demand curves, the age-sex distributions of the three subsamples and the average purchase probabilities for both anchor prices for each subsample were examined for evidence of differences which might confound the effect of odd pricing. First, the data were weighted so that the age-sex distributions of the three subsamples were the same. However, this process had only minimal effect on the estimated purchase probabilities. Therefore, the results reported here are based on unweighted data.

Next, the anchor point purchase probabilities for each of the subsamples were compared. This revealed evidence of systematic bias in these purchase probability estimates. In other words, in one subsample, the purchase probabilities were consistently lower than average, while in another subsample they were consistently higher. To eliminate this bias the anchor price purchase probabilities were averaged, then a linear transformation was applied to the test price purchase probabilities. This transformation involved recalculating the test price probabilities in proportion to the positive or negative “shift” of the subsample anchor points. This process is illustrated in the Appendix.
The demand curves shown in Figures 3 to 8 were estimated using these transformed data, by joining the purchase probabilities for the top and bottom anchor points through those for the even prices tested. For two products, the hair dryer and the kettle, the probabilities associated with the 5 cent price ending appeared to lie on the demand curve, consequently the curve was formed through these points as well. Similarly, the demand curve for the blender was formed through the probability for the $95 price point for the same reason.

To reiterate the assumption underlying odd pricing; if odd pricing “works”, greater than expected demand would occur at these prices. That is, the purchase probabilities for the odd prices tested would lie well to the right of the estimated demand curves, producing a kink in the demand curves at these points.

As can be seen from Figures 3 to 8, for all six products tested, plotting the average purchase probabilities for the top and bottom anchor points and the corresponding transformed even price probability produced a concave, downward sloping demand curve. This gives some reassurance about the validity of the method used as a means of testing the effect of odd pricing on demand.

In total, ten odd prices were tested; five 95 cent endings, three 99 cent endings and two whole dollar odd prices, namely, $95 and $99. For nine of these ten
The effect of odd pricing on demand

prices there was evidence of an odd pricing effect, demonstrated by the purchase probabilities at these prices lying to the right of the estimated demand curve. Though none of these odd pricing effects is statistically significant on its own[2], the likelihood of nine differences out of ten occurring in the same direction by chance is less than 1 per cent. Thus, these results provide strong support for the assumed effect of odd prices on demand.
For the five products tested with odd price cents endings (i.e. 99 cents or 95 cents), all eight odd price points tested produced greater than expected demand. The likelihood of this finding occurring by chance alone is less than 0.5 per cent. Sensitivity to odd pricing was greatest for the three products tested at the $10 and under level: cheese, frozen chicken and chocolates. Five of the six odd

**Figure 6.**
Demand curve - hair dryer

**Figure 7.**
Demand curve - kettle
The effect of odd pricing on demand

Price points tested at this level showed noticeably greater estimated demand. The sixth odd price tested (cheese at $4.95) revealed only a weak odd pricing effect compared to that at $4.99.

Overall, the effect of each of the odd prices tested on demand for cheese, frozen chicken and chocolates was similar for the 95 cent and 99 cent endings. That is, neither odd price ending produced consistently greater estimated demand than the other.

Two of the three electrical appliances, the hair dryer tested at the $20 level and the kettle tested at the $50 level, produced very similar demand curves, and for both estimated demand was greater than expected at the 95 cent odd price ending. However, the increase in estimated demand was less noticeable at these two price levels than for most odd prices tested at lower price levels. For the remaining electrical appliance, the blender, a shift to the right of the estimated demand curve occurred at $99, but no odd pricing effect was detected at $95.

Discussion

According to economic theory, quantity demanded will increase when price is reduced (except in certain special cases). Thus, an odd price of, say, $9.99 is expected to produce greater demand than a slightly higher even price of $10.00. The odd pricing assumption is that such odd prices result in greater than expected demand, resulting in a “kink” in the traditional downward sloping demand curve at these points.

This study provides support for this assumption. Purchase probabilities for nine of the ten odd prices tested fell to the right of the estimated demand curve.
for the product concerned and, for the cents-ending odd prices, the effect was
even more marked, with all eight prices tested producing greater than expected
demand. Individually, the differences between expected and actual purchase
probabilities were not significant, but the overall effect is very unlikely to have
occurred by chance.

The greatest sensitivity to odd pricing occurred for the low-priced grocery
products tested. The explanation for this enhanced sensitivity to odd pricing for
such products may be consumers’ greater price awareness for these regularly
purchased items, or perhaps the fact that the relative price differential between
the odd and even cents prices tested is greater for lower-priced products.

In this study there was no obvious difference in the effect on demand of 95
cent and 99 cent endings. The implication of this finding is that retailers should
use 99 cent price endings and benefit from the extra four cents revenue from
each sale. This conclusion supports the predominant use of prices ending in the
digit 9, and is one which has already been reached by a major New Zealand
supermarket retailer. This supermarket chain moved from 99 cent price endings
to 95 cent price endings when one and two cent coins were withdrawn from
circulation in New Zealand. Subsequently, the firm returned to 99 cent price
endings to achieve a higher gross margin for each item. No adverse effect on
sales occurred as a result.

The effectiveness of odd prices ending in the digit 9 appears particularly
marked at the $100 level. Many retailers believe that $100 is an important
psychological price point and that prices set above $99 (but close to $100) result
in a disproportionate loss of sales. This study tends to support this conclusion,
to the extent that a test price of $95 produced no odd pricing effect, whereas the
effect at $99 was quite marked.

What cannot be determined from this study is how the effect of odd pricing
occurs. Perhaps odd prices create an illusion of cheapness, perhaps consumers
have been conditioned to expect odd price endings, or perhaps there is some
other explanation. Some researchers (Schindler and Wiman, 1989; Schindler,
1991) have suggested that odd pricing may have several effects on consumers,
some positive, some negative. For example, the perception of an odd-price
ending as a low price might be offset by an association of odd-ending prices
with lower quality items. Thus, further research is needed to determine the
separate effects of odd pricing on demand.

Reasons for the previous lack of evidence to support the assumption that odd
pricing has a positive effect on demand are not clear. One possible explanation
is that the empirical investigations which did not find support for this
assumption were conducted in real shopping situations, where consumers are
subjected to in-store influences other than price. The effect of odd pricing per se
may be less in practice than in an experimental situation where price is the
focus of attention.

There are also some limitations to this study which need to be acknowledged.
First, the results are based on purchase probabilities, collected in an
experimental setting, not on actual purchase behaviour. Second, respondents
were asked to evaluate the same product at different price levels, whereas in practice they would be confronted with a number of different brands in the same product field. Finally, the range of products and price levels tested was relatively small. Consequently, it is difficult to say how generalizable this study’s results may be to other products and other price levels.

An alternative method of experimentation which would more closely approximate a true buying situation would be to test a range of brands within different product categories, featuring varying odd and even prices, rather than testing a single brand in each category. By including a wider range of products and a wider spread of anchor and reference prices, most of the limitations of the current study would be overcome.

Three decades ago, Twedt (1965) stated:

Wouldn’t it be interesting if a practice that may have started as a safeguard against petty theft persists today as a major imperfection in the price-making process?

Experimentation is clearly called for to determine whether the popularity of odd numbers, and the “9 fixation” in particular, really represent “magic numbers” that promote sales. Or are they only “sticky prices” that hinder scientific pricing decisions and optimum profits? (p. 55).

Despite its limitations, this study provides empirical support for the assumption underlying odd pricing and for the common practice of setting retail prices which end in 99 cents or $99.

Notes
1. These “critical” price levels were determined in preliminary discussions with a sample of 27 retailers throughout New Zealand. These represented seven Palmerston North-based outlets and 20 national retail chains. In each case the respondent interviewed was personally involved in implementing pricing policy.
2. Based on t-tests of the difference between observed purchase probability for each test price and purchase probability calculated from the estimated demand curves at these prices.

References


Rogers, L. (1990), Pricing for Profit, Basil Blackwell, Cambridge, MA.


**Appendix. Linear transformation of purchase probability data**

An example of the linear transformation performed on data for the product frozen chicken is as shown in Table A1.
The effect of odd pricing on demand

First, the mean purchase probability for the top and bottom anchor points was calculated: top anchor price ($6.10), mean probability = 4.25; bottom anchor price ($5.90), mean probability = 5.54. The linear transformation was then made using the following equation:

\[ p_t = p_o + s \]
\[ p_t = p_o + x + (y - x) * \frac{a}{a + b} \]

where:
- \( p_t \) = transformed "test" price purchase probability;
- \( p_o \) = original "test" price purchase probability;
- \( s \) = shift, either positive or negative, of each "test" price point;
- \( x \) = mean purchase probability of the three top anchor price subsamples minus the individual subsample purchase probability;
- \( y \) = mean purchase probability of the three bottom anchor price subsamples minus the individual subsample purchase probability;
- \( a \) = differential between the top anchor price and the test price;
- \( b \) = differential between the bottom anchor price and the test price.

Figures derived from the transformation calculations are presented in Table AII.

### Table A.I.
The purchase probabilities for each subsample prior to linear transformation

<table>
<thead>
<tr>
<th>Original price ($)</th>
<th>Purchase probability</th>
<th>Subsample</th>
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<tbody>
<tr>
<td>5.90</td>
<td>4.35</td>
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<td>5.90</td>
<td>5.56</td>
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<td>6.00</td>
<td>6.70</td>
<td>3</td>
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<td>5.95</td>
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</tr>
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<td>5.99</td>
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<td>6.10</td>
<td>5.71</td>
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<tr>
<td>6.10</td>
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<td>6.10</td>
<td>4.64</td>
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<tr>
<td>6.10</td>
<td>4.68</td>
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### Table A.II.
The transformation of "test" price purchase probabilities

<table>
<thead>
<tr>
<th>&quot;Test&quot; price ($)</th>
<th>( x )</th>
<th>( y )</th>
<th>( a )</th>
<th>( b )</th>
<th>Original purchase probability</th>
<th>Transformed purchase probability</th>
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</thead>
<tbody>
<tr>
<td>6.00</td>
<td>0.81</td>
<td>1.19</td>
<td>0.10</td>
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<td>5.95</td>
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</table>
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4. Peter G. Roma, Steven R. Hursh, Stanton Hudja. 2015. Hypothetical Purchase Task Questionnaires for Behavioral Economic Assessments of Value and Motivation. *Managerial and Decision Economics* n/a-n/a. [CrossRef]


