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# The role of misconception and loss aversion in the WTA-WTP Gap: An empirical investigation

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## Abstract

The willingness to accept (WTA)-willingness to pay (WTP) gap is one of the most central topics in behavioral economics. While a general consensus attributes the WTA-WTP gap to loss aversion, Plott and Zeiler (2005) argue that the gap is a consequence of subjects' misconceptions about the experimental procedure and can be eliminated if we control for a series of inappropriate experimental practices. Isoni, Loomes, and Sugden (2011) demonstrate that the gap persists after controlling for misconceptions. We present an experiment to examine the part of loss aversion in explaining the observed WTA-WTP gap after controlling for misconceptions. We measure individually (1) the WTA-WTP gap using Plott and Zeiler's procedure and (2) the loss aversion parameter of prospect theory. Our results show a small but significant correlation between the WTA-WTP gap in a misconception-free setting and the loss aversion measure, suggesting that loss aversion has something to do with the observed gap

**Keywords:** loss aversion, willingness to accept, willingness to pay, prospect theory, misconceptions

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