

# Money illusion for others

**Rajarshi Majumder**  
Grenoble Ecole de Management  
**Ignazio Ziano**  
University of Geneva

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## **Abstract**

Money illusion is the inclination of people to think of money in nominal values instead of real values, without taking into account the effect of inflation. In this paper, we explored the extent to which people are affected by money illusion and to which extent they perceive others to be affected by it. We investigated how likely people would be willing to buy and sell and how likely they think others would be willing to buy and sell in times of inflation. Across three pre-registered studies, we found that, in the presence of inflation, participants believed they were less likely to buy and equally likely to sell as compared to others at a higher nominal price when there was no change in real price. Interestingly, we found that when directly asked, participants considered themselves to place more importance on the real value of money than nominal as compared to others. We discuss theoretical and practical implications of the self-versus other perception of the effect of money illusion.

**Subject Areas:** *Consumer Behaviour, Decision-Making*

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