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Mental Accounting and False Reference Points in Real Estate Investment Decision Making

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Abstract

This study examines a number of behavioral finance issues as they relate to real estate investments. We find a statistically significant degree of mental accounting at all points throughout the disposition effect curve when holding a real estate investment in isolation versus holding the asset as part of a mixed-asset portfolio. We also identify

four distinct points on the disposition effect curve, where investors' mental accounting is most pronounced. Furthermore, we conclude that mental accounting is most pronounced when the point does not coincide with the peak of the disposition effect curve. In other words, the point does not coincide with the peak of the disposition effect curve.

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Notes

1. They might well even become risk seeking in their betting patterns with “house money” (see Ali [1977], McGlothlin [1956]).
2. It is necessary to specify the maximization function as an absolute value because, as demonstrated in [Table 2](#), the willingness to sell can decrease or increase as the return on the asset increases.

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