

## The Monetary Effect of Power: How Perception of Power Affects Monetary Value Judgments in China and US

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Previous research has found a positive correlation between the perception of power and the perception of a number of social attributes (e.g., attractiveness, height, personality traits), but most of the studies were conducted in the US, and none has investigated the relationship between power perception and monetary value judgments. The current study found dramatic differences between Americans and Chinese on value estimations; the Chinese seem to perceive much higher monetary values for all items people found or lost, regardless of the power status of the protagonists than Americans, controlling for inflation and currency exchange rates. We also found interesting power by culture interactions that Chinese were more likely to judge the items found by powerful people to be more valuable than the ones found by less powerful people, while Americans were more likely to judge the items found by less powerful people to be more valuable than the powerful people. In addition, American participants were more likely to judge the items loss by powerful people to be more valuable than by less powerful people. These differences may be caused by culturally different attitudes toward power status. Implications for understanding the relationship between physical reality and psychological reality as well as the scope of cultural differences are discussed.

*Key Words:* Culture; Power; Value; Monetary judgment.

*JEL Classification Numbers:* Z10, J17, E40.

## 1. INTRODUCTION

Since Kahneman and Tversky unveiled their first findings on psychological constraints to human economic judgments, the field of behavioral economics has prospered which illuminated fascinating deviations from classic economic theories. The prospect theory they proposed, and more generally the behavioral economics they helped to build, explain why people systematically deviated from economically rational models (Kahneman & Tversky, 1984). For example, they found that losses are considered by people to be more important than equivalent gains (Tversky & Kahneman, 1981). They explained that losses loom bigger than gains psychologically because they seem more powerful, more likely to take place, and appear more significant in affecting the future (Langevoort, 1996). In recent economic literature, money, power, and capital accumulation have been treated in formal models by Zou (1994, 1995, 1998), Gong and Zou (2001, 2002), among many others.

However, most of the theories and findings of behavioral economics are rarely tested in cross-cultural settings. Despite the simultaneous emergence of behavioral economics and economic globalization with an East Asian focus, economists and psychologists have only recently begun to explore

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how cultural forces affect human economic behavior in systematic and predictable ways between East Asians and North Americans. A few years ago, Levinson and Peng critiqued certain fundamental aspects of business laws, and argued that Western models of economic behavior may not be appropriate for culturally diverse understandings of economic behaviors (Levinson & Peng, 2006). They first applied specific cultural psychological principles to legal inquiries, and analyzed how culture influences decision-making in legal applications of causation and foreseeability. They also demonstrated how perceptions of moral standings systematically affect peoples estimation of items values across the US and China, and argued for culturally competent economic policy.

An important dimension of human cultural difference that has received much attention from cultural psychologists is the power hierarchy and the perception of power and power differences in different cultures. Hofstede (1980, 1996) found that the distance or inequality of power at which a boss and a subordinate find equilibrium is to a large extent determined by national culture (Hofstede, 1980, 1996). Such power distance has now become an important means that researchers use to classify countries across the world for cross-cultural contrasts, particularly in the area of cross-cultural studies on individualism-collectivism. Triandis (1994) was the first to coin the term “vertical collectivism” to link the cultural work on power and his work on individualism and collectivism (Triandis, 1994). As opposed to seeing collectivism merely as the opposite of individualism, collectivism is actually understood as having two dimensions. Vertical collectivism places emphasis on authority and hierarchy, and Chinese culture seems to endorse it more than people from the North American societies. According to recent work on cultural difference and the perception of power, for both Chinese and European Americans, power symbols can trigger activation of power or hierarchy schema. However, this was found to be much easier for Chinese than for Americans (Yang, et al, 2012).

Given the cultural difference in conceptions of powers, one obvious question to ask is whether the effect of power can be extended to monetary value judgments. There is mounting evidence suggesting a reciprocal relationship between peoples perception of power and their perception of physical attributes of people who have or do not have power, such as the findings between power perceptions and height perceptions. Researchers have found that by elevating people to make them look taller (Judge & Cable, 2004), the change not only affects how others view their level of power relative to others (Schubert, 2005), but how they behave towards others, including more action-orientated (Anderson & Galinsky, 2006), speaking out of turn (Brown & Levinson, 1987) and objectifying others (Galinsky, Magee, Gruenfeld, Whitson, & Liljenquist, 2008). However, there is no empirical test of the effects of power on monetary value judgments.

To test whether power influences peoples perceptions of monetary values, we conducted an empirical investigation concerning monetary value estimations across cultures, and examined how these estimations might be susceptible to the effects of power in different cultures. The study used implicit association of power (i.e., occupations) to generate the power effect. Given the fact that Chinese cultures do emphasis power distance, we believe that the Chinese would show more power effects on monetary value judgments, so that:

*Hypothesis 1: Activation and use of the hierarchy schema would differ across cultures; Chinese should show stronger power effects than Americans, meaning that their estimation of monetary values of items owned by people who have different power status would show stronger discrepancy;*

Since cultural psychologists have also discovered that Americans are more object focused than East Asians (as illustrated by the fundamental attribution error) in their perceptual orientations (Peng et al, 2010), it would be reasonable to predict that Americans will be less sensitive to contextual or situational information provided about items surroundings, and will be more likely to make monetary value judgments based upon assumed intrinsic object values. Meanwhile, because Chinese have been shown to be more situation focused than Americans, one might expect that they would judge the monetary value of items in a manner more consistent with contextual cues and the ways the items were presented. As a result, we predict other cultural differences regarding the monetary value estimation.

*Hypothesis 2: Chinese would be more sensitive than Americans to the experimental manipulations of the ways the items were presented, by both the framing effects (items were found or loss) and the cultural historical effects (the economic and social context of the scenarios). Specifically, when the value of an item is being measured over time, Chinese would be more likely to incorporate social and economic factors into value estimations during the time period being referenced.*

## 2. METHOD

**Participants.** A total of 182 members of two university research pools from America ( $n = 101$ , age  $M = 20.3$ ,  $SD = 1.2$ ; 53 male) and China ( $n = 81$ , age  $M = 19.8$ ,  $SD = 1.1$ ; 47 male) participated in the study.

**Materials.** We adapted the research materials invented by Levinson & Peng in the cross-cultural critiques of behavioral economics (Levinson & Peng, 2006). In the current study, participants were asked to judge the monetary value of four items (a gold ring, an antique chair, commemorative coins, and a municipal bond) when a value approximately 20 years prior had been given. For each condition, there are 4 similar scenarios varying with different items (ring, antique chair, municipal bonds, and commem-

orative coins) and careers (manager vs employee; governmental official vs clerk; professor vs student; director of a charity vs beggar). Thus, the experiment had a 2 (culture: Chinese or Americans)  $\times$  2 (protagonist's status: with power or without power)  $\times$  2 (protagonist's experience: finding or losing something) design, with culture, protagonist's power (participants read stories of either all high power or lower power scenarios), and frame manipulated between participants.

Depending upon the independent variable condition, participants read variations of the following stories:

Nancy, an employee (or manager, in high power condition) at a local grocery store, was walking along the beach when she found a gold ring in the sand. However, Nancy had no idea that the ring had been purchased in 1985. According to *World Jeweler*, an international jewelry appraisal publication, the ring was worth 100 Dollars at the time it was purchased.

Alex, a clerk (or a government official, in high power condition) working for the governors office, recently moved to a new apartment. When unpacking, he found an antique chair that was accidentally delivered to his house along with his belongings. There is no tracking label or other identification information on the chairs packaging, and the moving company tells him to keep the chair. Alex does not know how much the chair is worth. However, an old issue of *Antique Magazine* indicates that the chair was worth 350 Dollars in 1985.

Chris is a student (or a professor, in high power condition) who works in a drug store. In 1985, Chriss mother purchased a municipal bond for her for \$200 and hid it in the top of a closet at their apartment. However, when Chris's mother became ill, she forgot where she put the bond. When Chris recently moved out of the apartment, despite her best efforts, she couldn't find the bond. The bond does not have a name endorsed on it, so that anyone can keep it or cash it.

Kendall is a beggar (or the director of a charity organization, in high power condition). He was recently walking in the park when he sat down on a bench to have a rest. As he sat down, an envelope containing rare commemorative coins slipped out of his pant pocket and onto the ground. Kendall had received the coins from a friend, but he did not know how much they were worth. Kendall doesn't know it, but in 1985 *Collectibles Auction House* valued the coins at 500 Dollars.

All materials were created in English with consideration for cross-cultural understanding of the concepts. The 1985 financial anchor values were given to Americans in US Dollars and to Chinese in Chinese currency (RMB) on a 1:10 ratio based on the exchange rate for the 10RMB = 1USD dollars in 1985. The survey was translated into Mandarin Chinese by a bilingual research associate and back translated into English by another bilingual

research assistant. Resolution of translation discrepancies was made by group consensus of the authors and translators.

The dependent variable measured financial estimates of object values and ownerships. Participants were given the following written instruction: “Please give your best estimate of how much the coins are worth today. Do not give a range. Only give an exact amount.” In order to work with comparable value estimates, we first adjusted the price of the item both in 1985 (given out by us) and 2012, the year of which data were collected (estimated by the participants) by the CPI<sup>1</sup>, and then we converted raw dependent variable value estimation scores into a summary index that presents the ratio of value increase from the items anchor value in 1985 according to the Final Value of the Annuity formula as below:

$$s = p \times (1 + i)^n$$

In which  $s$  indicates the estimation participants gave in 2012;  $p$  is the value described in 1985;  $n$  is 27, which is the number of years (2012-1985); and  $i$  is the increasing rate. Then we adjust  $p$  according to the CPI in 1986, and  $s$  according to the CPI in 2010, then we got advanced  $r$  instead of  $i$  as

$$r = \left( \frac{s/\text{CPI}_{2010}}{p/\text{CPI}_{1986}} \right)^{\frac{1}{2012-1985}} - 1$$

For the property ownership judgments, participants were asked questions designed to test judgments of who owned the object after each story, the finders’ rights to transfer the object. The ownership questions included: “Is it OK to sell the item” and “Is it OK to present it to a friend”. Participants were asked to answer these two questions in a 7-point scale from Definitely NOT to “Definitely”.

### 3. RESULTS

Cultural Differences in Value Estimations among items. The results show that Chinese estimated values of all four items higher than Americans. For the ring, Chinese estimations were 153.78 times the 1985 value while American estimations were only 6.65 times the 1985 value,  $F(1, 233) = 3.02$ ,  $p = 0.084$  (one-tail test). For the antique chair, Chinese estimations were 66.27 times the 1985 value while American estimations were only 4.38 times the 1985 value,  $F(1, 233) = 21.05$ ,  $p < 0.001$ . For the bond, Chinese estimations were 28.85 times the 1985 value while American estimations

<sup>1</sup>To calculate the inflation adjusted values, we used the Consumer Price Index (CPI) for the US as provided by the World Bank. For China, we used CPI figures as reported by the Chinese National Bureau of Statistics.

TABLE 1.

Value Estimation by Culture

		Value 1985	Value 2012 Estimation	$i$	$r$
		Given	M(SD)	M(SD)	M(SD)
Americans	Ring	\$100	\$665.036 (1432.738)	0.036 (0.097)	0.010 (0.094)
	Chair	\$350	\$1532.655 (4344.919)	0.028 (0.038)	0.002 (0.037)
	Bond	\$200	\$4339.931 (23553.659)	0.025 (0.159)	-0.001 (0.155)
	Coin	\$500	\$5609.862 (41632.671)	0.029 (0.095)	0.003 (0.092)
Chinese	Ring	¥1000	¥153783.000 (1062236.363)	0.099 (0.068)	0.010 (0.094)
	Chair	¥3500	¥231943.820 (605563.780)	0.107 (0.071)	0.002 (0.037)
	Bond	¥2000	¥57708.270 (217340.206)	0.072 (0.061)	-0.001 (0.155)
	Coin	¥5000	¥274264.045 (778689.897)	0.107 (0.068)	0.003 (0.092)

were only 21.70 times the 1985 value,  $F(1, 233) = 8.60$ ,  $p < 0.01$ . For the coins, Chinese estimations were 54.85 times the 1985 value while American estimations were only 11.22 times the 1985 value,  $F(1, 233) = 17.23$ ,  $p < 0.001$ .

Table 1 displays the 1985 value anchors given to participants, as well as the inflation-adjusted index of  $i$  and  $r$ , and the raw American and Chinese value judgments for each of the four items. When value judgments were adjusted for inflation in the two countries, the results of a t-test indicated that, generally for index  $r$ , Chinese still made higher value estimations than Americans, for the ring,  $t(232) = 13.49$ ,  $p < 0.001$ , for the chair,  $t(114) = 23.44$ ,  $p < 0.001$ , for the bond,  $t(232) = 8.06$ ,  $p < 0.001$ , and for the coins  $t(232) = 14.99$ ,  $p < 0.001$ . The difference between cultures of inflation adjusted value  $r$  indicate that, even taking into account the vastly different inflation rates, Chinese still perceived more appreciation in the value of the items than Americans.

Second, these results highlight how big the mean differences were between American and Chinese estimates. For example, Americans estimated that the chair value increased by an average of under 2.81% per year (value which has been adjusted by inflation). Chinese estimated that the chair value increased by an average of 10.70% per year. Americans estimated that the ring value increased by an average of 3.56%. Chinese estimated that the ring value increased by an average of 9.92% per year.

There were some notable differences in value estimations between the items. Out of the four items possible, Americans judged the bond as the highest appreciating object since 1985. Chinese, however, judged the bond as the lowest appreciating object, perhaps indicating systematic cultural differences in the types of items that are perceived as gaining the most value over time (which may have cross-cultural implications in expected investment return).

Value Estimation on Find Frame. The rate  $r$  of each item were analyzed by a  $2 \times 2$  analysis of variance (ANOVA) with culture (American or Chinese), power of the protagonist (with power or without power). Under the find frame, the analysis revealed a significant main effect on culture  $F(1, 87) = 20.33, p < 0.001$ ; and a Power  $\times$  Culture interaction significant,  $F(1, 87) = 5.48, p < 0.05$ . But the main effect of power is not significant  $F(1, 87) = 0.99, p > 0.05$ .

We used the hierarchical multiple-regression procedures described by Aiken and West (1991) to test our hypothesis that the Chinese people will consider the item found by a person with power to be more valuable than that found by a person without power. We conducted the hierarchical regression analysis in three steps. In the first step ( $\Delta R^2 = 0.04, p > 0.05$ ), we regressed the  $r$  on age,  $\beta = -0.21, p = 0.08$ , and gender  $\beta = 0.06, p > 0.05$ . In the second step ( $\Delta R^2 = 0.13, p < 0.01$ ), we added the predictor variable, power,  $\beta = 0.02, p > 0.05$ , the moderator variable, culture,  $\beta = 0.38, p > 0.01$ . In the final step ( $\Delta R^2 = 0.08, p < 0.05$ ), we added the interaction between power and culture; this interaction was significant,  $\beta = 1.24, p < 0.05$  (Fig 8).

To illustrate the nature of the significant interaction effect, we followed the method described by Preacher, Curran, & Bauer (2006). Values of the predictor variables were chosen one standard deviation below and above the mean. Two simple regression lines were then generated by entering these values in the equation. We followed the approach recommended by Aiken and West (1991) to interpret the interaction. As Figure 1 reveals, the expected positive association between Chinese and  $r$  became more pronounced when power increased than Americans. We also tested simple slopes for the association between power and  $r$ . As expected, among Americans, the simple slope for this association was not significant (simple slope  $b = 0.02, t = 0.77, p > 0.05$ ), among Chinese, the simple slope for this association was positive and significant (simple slope  $b = 0.09, t = 3.07, p < 0.01$ ).

Value Estimation on Lost Frame. The same ANOVA was conducted on lost frame. But there is only a main effect about culture,  $F(1, 87) = 10.78, p < 0.01$ ; the main effect on Power  $F(1, 87) = 0.68, p > 0.05$  and interaction effect  $F(1, 87) = 0.19, p > 0.05$  are not significant (Fig 2).

Cultural Differences in Property Ownership Judgments. We conducted two multivariate analysis of variance (MANOVA) for find frame and lost frame separately, with the question of "Is it OK to sell the item" and "Is it OK to present it to a friend" as dependent variables, and culture and frame by power as between-subjects factors. The multivariate test was statistically significant only on culture for both frames. Americans were more likely than Chinese to judge that the finder had the right to sell the property under find frame,  $F(1, 87) = 5.78, p < 0.05$ ; as well as in lost

FIG. 1. Interaction effect of Culture by Power on estimated  $r$  of Find Frame

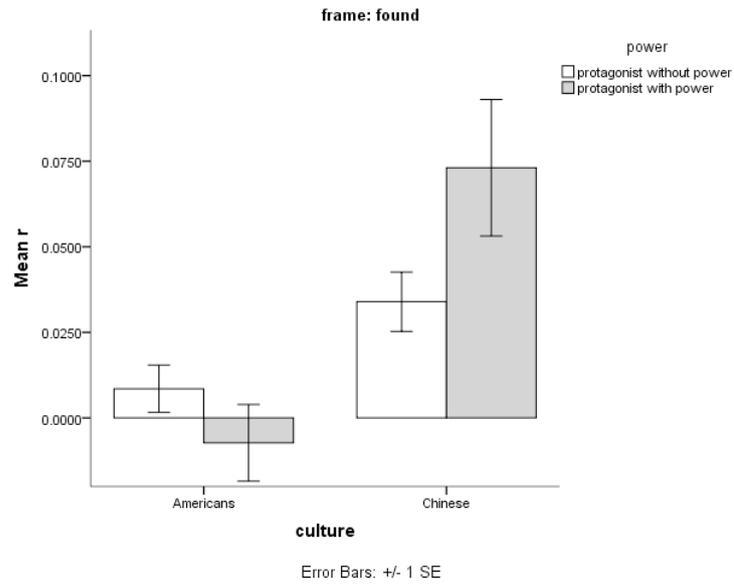
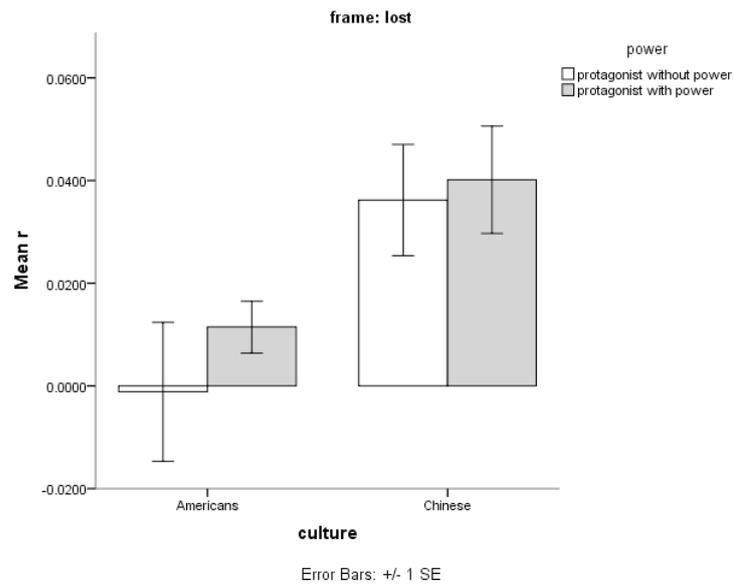


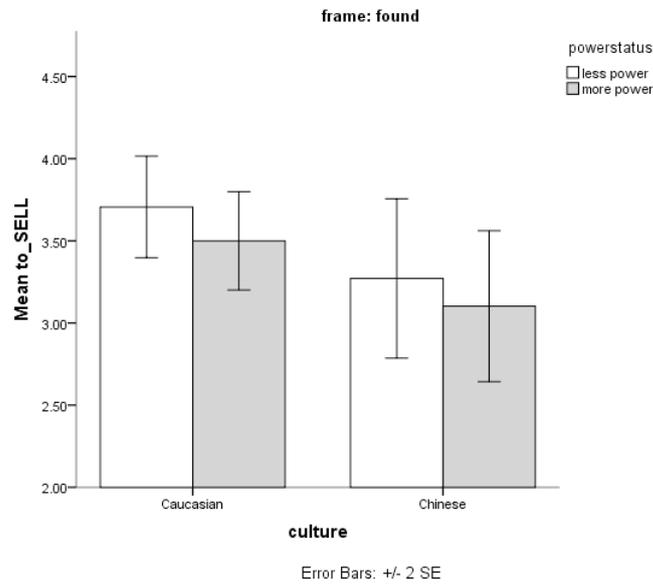
FIG. 2. Interaction effect of Culture by Power on estimated  $r$  of Lost Frame



frame,  $F(1, 87) = 7.65$ ,  $p < 0.01$ . Consistent with these results, Americans were more likely than Chinese to judge that the finder had the right to give the item away, for find frame,  $F(1, 86) = 3.95$ ,  $p < 0.05$ ; While for lost frame,  $F(1, 87) = 12.30$ ,  $p < 0.01$ .

But neither the main effect of power nor the interaction is significant. For main effect of power, in the finding frame,  $F(1, 87) = 0.97$ ,  $p > 0.05$  of the sell question;  $F(1, 87) = 0.80$ ,  $p > 0.05$  of the present question; in the lost frame,  $F(1, 87) = 1.37$ ,  $p > 0.05$  of the sell question;  $F(1, 87) = 2.06$ ,  $p > 0.05$  of the present question. For interaction, in the find frame,  $F(1, 87) = 0.01$ ,  $p > 0.05$  of the sell question;  $F(1, 87) = 1.24$ ,  $p > 0.05$  of the present question; in the lost frame,  $F(1, 87) = 0.14$ ,  $p > 0.05$  of the sell question;  $F(1, 87) = 0.14$ ,  $p > 0.05$  of the present question (Fig. 3,4,5,6).

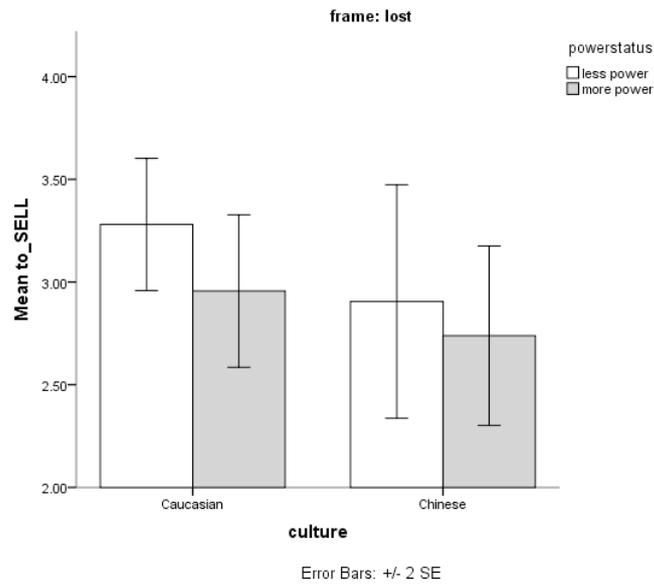
**FIG. 3.** Is it OK to sell the item in Find Frame



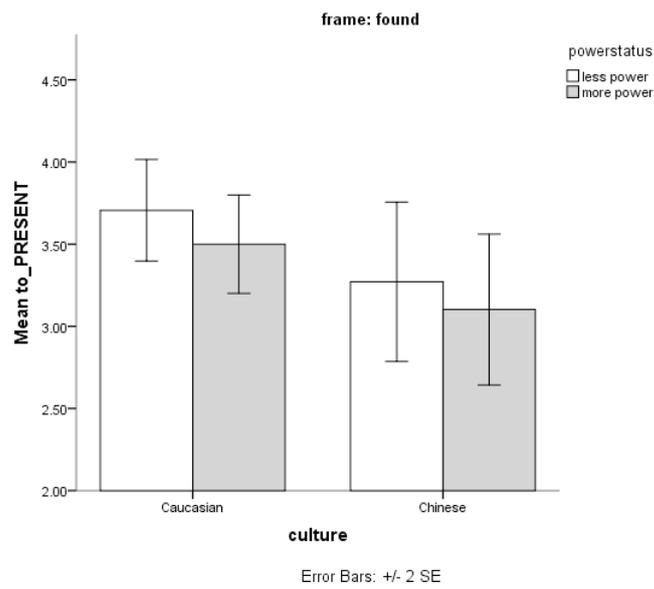
#### 4. DISCUSSIONS

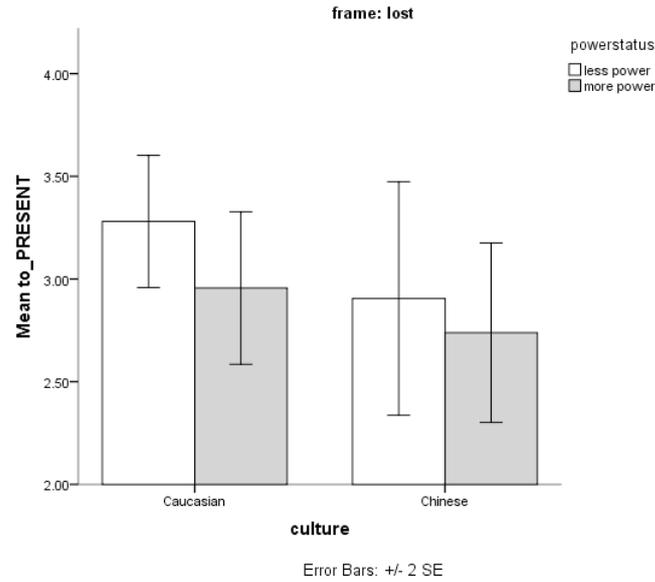
The study demonstrated that there are positive correlations between peoples power perceptions and monetary value estimations and that cultures differ in that regard. In general, Chinese were more sensitive than Americans in the power manipulations. Power information has long been implicitly assumed by economists to be irrelevant to the monetary values of given items. However, this study found that such experimental manipu-

**FIG. 4.** Is it OK to sell the item in Lost Frame



**FIG. 5.** Is it OK to present the item in Find Frame



**FIG. 6.** Is it OK to present the item in Lost Frame

lations do affect value estimates, and that the strength and persistence of these effects on financial value estimates depends upon the cultural background of the people making the judgments.

The fact that financial value estimations are susceptible to contextual variation, such as framing effects and power information, implies that value estimations are not solely guided by the intrinsic value of the property combined with economic conditions. Instead, our results indicate that financial value estimations are a function of four factors: the perceived intrinsic value of the items, the social and situational characteristics of the object possessor, the culture of the perceiver, and contextual factors (such as socioeconomic conditions or supply and demand). In order to understand the value of items, one has to understand all four components. This holistic approach is perhaps most relevant for understanding the value estimations of East Asians. In fact, such a holistic model of economic rationality is consistent with cultural psychological theories of East Asian epistemologies.

Understanding how individuals estimate the financial value of given items is relevant to the basic assumptions of modern behavioral, social, and economic sciences. Few previous studies have examined individuals' financial value estimating behavior across cultural groups and situational conditions (e.g., Peng & Peng, 2010; Peng, Peng, & Peng, 2009). This study found

that cultures differ in their value estimations, as well as their tendency to take social and contextual information into account when making those estimations. These cultural differences may lead to real life economic and business implications in international business transactions, in understanding economic incentives and self interest, in corporate strategic planning, in evaluating asset portfolios and investments, and in legal decision-making.

Past psychological research has shown that the psychological experience of power affects people's perception of their physical environments. For example, high-power people generally exhibit less cognitive complexity when making decisions (Fiske, 1993). The literature on negotiation has shown that high-power disputants are generally less aware of their opponents underlying interests than are low-power disputants. Also the low-power disputants are more likely to synthesize the conflicting positions for mutual benefit of the two parties (Mannix & Neale, 1993). On other hand, power status cues can also affect people's responses and judgments about the people who display these cues. For instance, height estimation is often a function of the power status of individuals that are being judged. This association may have human developmental roots in early childhood experiences since children often are confronted with taller parents who have power over them (Schwartz, Tesser, & Powell, 1982). There is a well-learned association between power and heights (Higham & Carment, 1992). From a metaphorical perspective, power is associated with higher social status, hence taller people are more likely judged to have higher social status, hence taller people are more likely to earn higher salaries (Frieze, Olson, & Good, 1990), more likely to be found holding higher positions in organizations and societies (Egolf & Corder, 1991; Higham & Carment, 1992; Melamed & Bozionelos, 1992), and more likely to win presidential elections (Judge & Cable, 2004; Young & French, 1996). From an evolutionary perspective, people who take up more space are often considered to be more dominant, whereas when people constrict themselves, they are often perceived to be more submissive (Eibl-Eibesfeldt, 1989) (Tiedens & Fragale, 2003). People attribute higher status to individuals elevated in physical space and they are able to more quickly identify powerful groups when those groups are positioned higher, rather than lower, than other groups in space (Schubert, 2005).

Culture should be embraced as an important factor in models of economic decision-making. Across a variety of cognitive domains, and as demonstrated by our own study, people make economic decisions in vastly different ways based upon their culture, the frame, as well as the situational information provided. At the least, these findings indicate that culture must be embraced as an important variable in behavioral economic models. Yet we believe that the importance of cultural understanding goes beyond simply generating models of deviation from rational economic behavior. Incon-

porating cultural competence into behavioral economics can provide clues that will help legal scholars not just understand human cognitions more fully, but also help them conceptualize the laws prescriptive response to cognitive biases. After all, if cultural diversity can potentially solve genetically caused challenges, perhaps it can help solve behavioral ones.

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