

Evaluation of Premium Effect--Specific Case Analysis

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Abstract. In today's society where resources are abundantly available, people's consumption decisions may have transcended the realm of product functional attributes and extended to dimensions such as emotional resonance and identity recognition. Against this backdrop, consumers are still willing to pay excessive prices for specific goods or services. From the situation where high-quality products have excessively high prices but still have buyers, to the limited release of luxury goods, and to the initial rush to purchase of emerging technological products, the phenomenon of premium pricing not only reflects the popularity of the products but also reveals a profound shift in people's inner pursuit of products from "value transmission" to "value creation". Moreover, with the rapid development of social media, more and more people are influenced by a trend that has emerged in the current era. From celebrity endorsements to recommendations from friends, the premium logic of "symbolic consumption" is being restructured. This article attempts to start from actual cases, in detail explore and summarize the evaluation criteria, underlying logic, and the social laws and current situation reflected by the premium effect.

Keywords: Premium effect, behavioral finance, the rise of the Internet

1. Introduction

The early ideas of the premium effect can be traced back to the period of the value paradox in classical economics, where the premium was regarded as a manifestation of market failure - that is, when the product price is significantly higher than the marginal cost, it is usually attributed to a monopoly position or information insufficiency. The premium effect truly entered the mainstream as an independent academic concept thanks to the rise of brand asset theory. In the 1960s, with the development of marketing science, scholars discovered that even products with exactly the same physical attributes, when labeled with different brands, the prices that consumers are willing to pay vary greatly. This phenomenon gave rise to the concept of "brand premium".

With the continuous changes in the economic environment and the world's political landscape, as well as the progress and development of human society, the premium phenomenon has increasingly permeated people's lives and is almost everywhere. From the perspective of aspects that are relatively close to people's lives, the rapid development of urban rail transit is reshaping the urban spatial structure and housing market pattern [1]. The prices of housing along the lines will inevitably have a premium effect depending on the different geographical conditions; from the perspective of the broader social environment, the premium in the A-share market, bond issuance, corporate bond

risk premium, green bond premium, the development of e-commerce [2-6]. The environmental regulations in different regions will bring regional differences in the premium effect of green brands on ecological agricultural products [7, 8]. From the perspective of social trends and people's psychology, some products with unique brand effects, such as trendy toys and luxury goods, will have brand premium effects.

2. Theory and related concepts

2.1. Premium concept

In simple terms, a premium refers to the price actually paid exceeding the "intrinsic value" of a commodity or asset. A positive premium usually indicates a bullish market sentiment and abundant liquidity, but it is also necessary to be vigilant of the risk of a bubble. A negative premium (discount) may indicate an undervaluation of the asset, but it could also imply potential problems with the asset itself. The premium effect refers to the situation where when an asset reaches a premium state, this state will in turn influence the expectations and behaviors of market participants, even forming a self-reinforcing cycle.

2.2. Types of premium effects

Premium effects can be classified into the following three types. The first type is "Emotional and Liquidity Premium", which is the most common type. It stems from the influx of funds and optimistic expectations. The core logic is a positive feedback loop where prices rise due to emotions, attracting more funds, and further pushing up prices. The second type is "Risk Compensation Premium", where this premium does not stem from "fawning" but from "fear". Investors demand additional returns as compensation for taking on risks. The core logic is high risk, high expected return. The third type is "Asset Attribute Premium", which is relatively stable. It stems from the unique and difficult-to-replicate attributes of the asset itself, rather than price fluctuations. The core logic is scarcity, safety, or brand value.

Overall, emotional premiums are driven by the flow of funds and disappear quickly; risk premiums are driven by uncertainty, and the premium disappears when the uncertainty is eliminated; attribute premiums are driven by scarcity and brand, and this is often the deepest moat of an outstanding enterprise.

2.3. Case analysis of three types of premiums

2.3.1. Premium effect caused by technological development

In today's society, technology is advancing rapidly. The rise of platforms like e-commerce and related fields such as artificial intelligence has had an impact on people's lives and employment. The rapid development of artificial intelligence represents an improvement in intelligence level, transforming basic manual labor into standardized and model-based labor, which not only increases efficiency but also reduces costs. By weakening the decision-making power of workers in their tasks, it suppresses their human capital premium.

Technology has also brought about the rise of e-commerce platforms, making more and more people inclined to shop on these platforms or in live-streaming rooms. For example, as shown in figure 1, from 2010 to 2025, the higher the category, the more people purchase this type of rice. The number of sold rice products related to geographical indications has been continuously increasing.

Through platform promotion of relevant geographical locations, it can enhance reputation, credibility and brand awareness, thereby causing the rice produced from those geographical locations to generate higher online premiums. For instance, rice from western regions or non-grain-producing areas with geographical indications can generate higher online premiums.

It can be seen that technological development has made the dissemination of information on social media faster, enabling major brands to present their information completely and accurately to people. Those products with high credibility, high popularity and rarity will be more likely to be chosen by people.

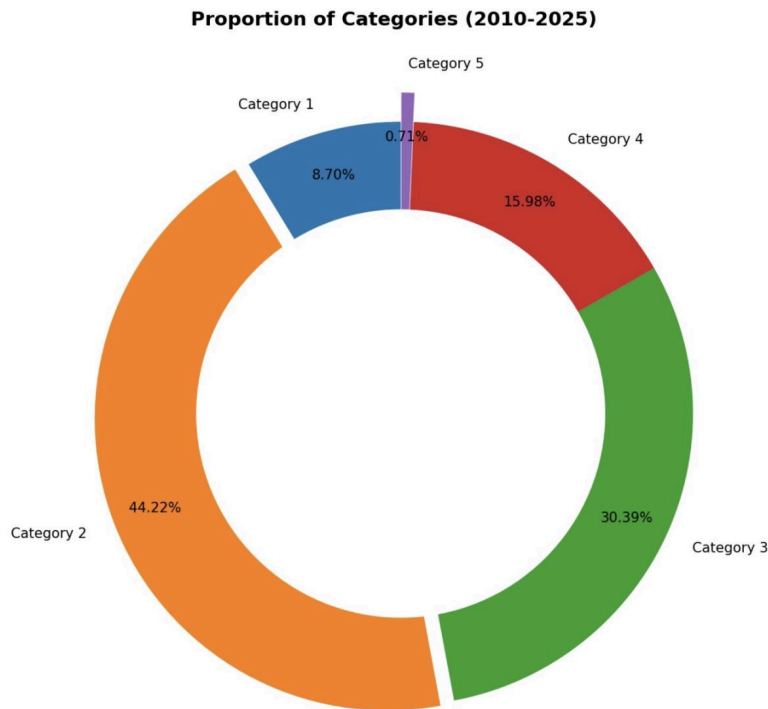


Figure 1. The distribution structure of the quantity of geographical indication rice over the period (2010 - 2025) [1]

2.3.2. The premium effect brought by urban construction and the environment

For a long time, the country has been continuously improving various aspects of urban construction, which not only improves the overall environment of the city but also has a considerable impact on people's personal living issues. As is well known, the construction of urban rail transit undoubtedly holds an absolute dominant position in land and commercial real estate. To facilitate daily travel, people tend to choose areas with developed transportation and convenience as their residential areas, which leads to a premium effect in housing prices in regions with superior conditions, such as school district houses, electric zone houses, and urban center housing, etc. The impact of rail transit on housing prices not only manifests in short-term premiums but also shows periodic fluctuations, and there are differences between different cities and regions [9]. As shown in figure 2, the trend of average housing prices is generally consistent with the growth of public charging station numbers, indicating that the housing prices in residential areas that are convenient for life are higher. However, there are still people who are willing to pay excessively high prices for the convenience of life. Based on the mechanism analysis from the perspective of supply and demand, the establishment

of national-level new areas can expand the demand for land [10]. The agglomeration effect generated by enterprises entering and population inflow will be capitalized in land prices, resulting in a significant land premium effect; at the same time, local governments will also conduct regional planning and construction, intervene in the formation of land prices, and the land premium effect will show significant differences among different land supply types, land supply structures, and land supply entities. In terms of housing wealth, the climate transition risk will generate a "green premium" in the heterogeneous policy environment throughout Europe [11].

Therefore, the better the urban construction, the higher the relative premium level of housing prices. However, the pursuit of high-quality products still makes some capable people willing to pay for it.

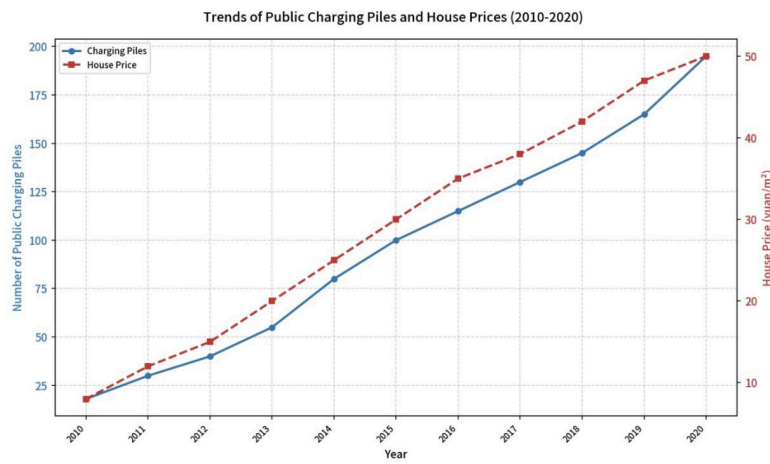


Figure 2. Line chart showing the trend of public charging station numbers and average house prices from 2010 to 2020 [11]

2.3.3. Exploring the premium effect from the perspectives of people's income and psychology

Taking the consumers' perception of the emotional value of Huanren rice from Huanren in Shenyang as the independent variable and the willingness to pay for the premium as the dependent variable for research, as shown in figure 3, this is the type of consumers collected [12]. The results show that, under the condition of consumers' trust in the brand of Huanren rice, the income of consumers has a significant effect on their perceived value. Consumers with a higher income level have a more obvious perception of product quality. At the same time, there is also a significant effect on the degree of product trust. Thus, the degree of premium is also more intense. At the same time, nowadays more young people are willing to pay for some premium-intensive categories such as pop culture toys and luxury goods, such as to keep up with the trend, pursue psychological brand identity, and support the related endorsements of stars and bloggers they like.

Therefore, it can be seen that the higher the income level of consumers, the stronger their purchase intention, and thus the more obvious the willingness to pay for the premium. The promotion effect of consumers' inner emotions on the willingness to pay for the premium will also be further enhanced. Thus, people's income and psychological activities are also the reasons for the premium effect.

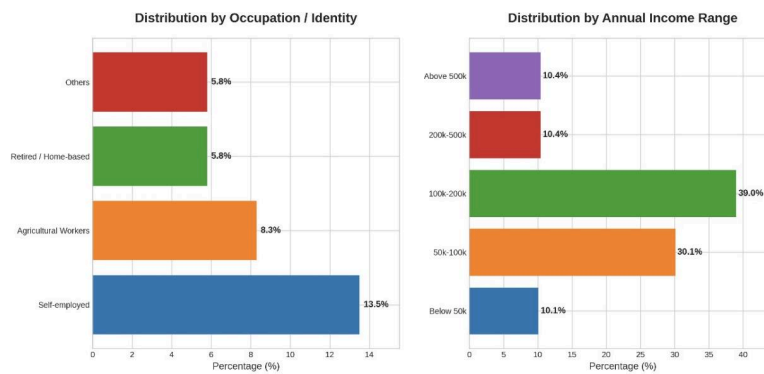


Figure 3. Bar chart of annual income distribution by occupation and family [6]

3. Review of existing research and outlook for future studies

Today, the phenomenon of premium pricing is ubiquitous. "You get what you pay for". Good things cost more. The pursuit of quality is a common characteristic among people. Out of the rational pursuit of superior performance, people inevitably pay for some premium items in their daily lives. Therefore, the premium effect promotes mass consumption and brings about economic growth. However, at the same time, people should also reasonably face their own needs. They should not engage in irrational symbol exchanges for the sake of obtaining social recognition. Instead, they should consume within their means and avoid blindly following trends or even excessive consumption.

4. Conclusion

The study of the premium effect can reveal the underlying logic behind prices being higher than the industry average and still being accepted by the market. It can also provide a deeper understanding of various types of premiums, such as scenario premiums, ecological premiums, and technological premiums. It explains why consumers are willing to pay higher prices for safer, smarter, more convenient, and healthier products, providing a basis for more enterprises to precisely match user needs and creating a more favorable market trading environment. At the same time, it clarifies the elements that can bring about real premiums, defines the reasonable boundaries of premiums, distinguishes between real value premiums and irrational speculation, and guides the market to form healthy value judgments and consumption concepts. Of course, in the current research, there are issues such as insufficient integration of multiple theoretical perspectives, ignoring the cyclical dependence of premiums, and more factor interactions.

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