

Non-Technical Summary

Project: “Do Firms Have Incentives to Help Consumers in Making Choices: The Case of Czech Mobile Market”

Principal Investigator: Natalia Shestakova

Final Paper Title “Pricing-Scheme Choice: How Process Affects Outcome”

The paper examines the key assumption in standard price discrimination literature saying that consumers always select those pricing schemes that satisfy their incentive compatibility constraints. Practically this assumption implies that consumers compute net values of all offered pricing schemes taking into account their demand characteristics and then select schemes with highest values. The first question addressed in the paper is whether consumers indeed do the imposed computations or use simpler heuristics. More importantly, the effect of actual selection approach on the resulting pricing-scheme choice is looked at.

The data is collected in a computerized experiment designed with the usage of the Mouselab tool. Subjects are asked to select a pricing scheme after they go through a consumption task where they can learn their demand characteristics. Out of 96 subjects, 32 end up with incorrect pricing-scheme choices. The Mouselab tool records the information acquisition process for each subject. The process data is used to identify whether an individual selection approach is based more on computing net value of each pricing scheme or on simpler heuristics. 37 subjects are identified as relying on computations and 59 subjects as relying on simpler heuristics. The selection approach measure is the main variable of interest in the probit model that attempts to explain incorrect choices of pricing schemes. As an important control variable subjects' awareness of their demand characteristics is included in the model.

The main finding of the paper is that the effect of the selection approach on the probability of incorrect pricing-scheme choice depends on subjects' awareness of their demand. Those subjects who are well aware of their demands and rely more on computations do better than those of them who rely on heuristics. At the same time, when subjects are not well aware of their demands, a heuristic selection approach helps them in avoiding errors in the pricing-scheme choice.

The experimental results presented in this paper support the European Commission's proposal that providers of telecom services should be “obliged to publish information on prices so that consumers can more easily compare the different offers on the market”. The results go further in suggesting that the pricing schemes should be designed such that not only careful computations but also simple heuristics would lead to correct choices. In addition, the results suggest that the role of feedback is important, that is, consumers should not experience any difficulties with obtaining information on their past consumption.