APPENDIX: CHAPTER 3

Let me explain how the logic of standard economic theory would apply to our setting. When a person can select one and only one of two chocolates, he needs to consider not the absolute value of each chocolate but its relative value—what he gets and what he gives up. As a first step the rational consumer needs to compute the relative net benefits of the two chocolates (the value of the expected taste minus the cost), and make a decision based on which chocolate has the larger net benefit. How would this look when the cost of the Lindt truffle was 15 cents and the cost of the Hershey's Kiss was one cent? The rational consumer would estimate the amount of pleasure he expects to get from the truffle and the Kiss (let's say this is 50 pleasure units and five pleasure units, respectively) and subtract the displeasure he would get from paying 15 cents and one cent (let's say this is 15 displeasure units and one displeasure unit, respectively). This would give him a total expected pleasure of 35 pleasure units (50−15) for the truffle, and a total expected pleasure of four pleasure units (5−1) for the Kiss. The truffle leads by 31 points, so it's an easy choice—the truffle wins hands down.

What about the case when the cost is reduced by the same amount for both products? (Truffles cost 14 cents and the Kiss is free.) The same logic applies. The taste of the chocolates has not changed, so the rational consumer would estimate the pleasure to be 50 and five pleasure units, respectively. What has changed is the displeasure. In this setting the rational consumer would have a lower level of displeasure for both chocolates because the prices have been reduced by one cent (and one displeasure unit). Here is the main point: because both products were discounted by the same amount, their relative difference would be unchanged. The total ex-