# Nonlinear Pricing in Village Economies

Attanasio and Pastorino (2020), Econometrica

January 22, 2024

# Motivation

1. Research Question:
   - While cash transfer program in Mexico, Progresa, does not alter the average unit price significantly, consistent with the previous literature
   - It has substantially intensified the degree of quantity discounts
   - How can one modify the standard nonlinear pricing model to explain the above empirical findings?
2. Suggestion: nonlinear pricing model with budget/subsistence constraint
   - Unlike the standard nonlinear pricing models, the authors allow consumers can differ not only in their taste, but also in their budget or, equivalently, subsistence constraint
   - From this modification, the model can incorporate environment for developing countries

# Findings

1. Effect of nonlinear pricing on market participation
   - Nonlinear pricing gives bigger surplus to those consuming small quantities, mostly because of the higher degree of market participation that nonlinear pricing induces
   - Also, those of small quantities, consume above the first best level
2. Effect of cash transfer on unit price and consumption
   - Progresa transfer has strengthen the degree of price discrimination
   - Reduced form of the model, in which the size of quantity discounts depends on the hazard rate of the distribution of quantities purchased in a village, explains the change in price schedule above

# Comments

1. Strengths:
   - Unlike the previous literature about the effect of Progresa, the authors focus on the effect of Progresa on the price schedule
   - By proving the equivalence between BC model and Jullien (2000)'s model, extend the standard model to more realistic environment
2. Possible future extension and improvement:
   - Other cases for cash transfer program, if data is available: it may be correct only for Progresa, or Mexico
   - Personally, it would have been better if there was more explanation about the intuition of the results of the model