

# Discussion of Inattention to Size Changes

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# What is the paper about?



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Idea is simple: **reduce package size** to **increase unit price**.

- Why not just keep size the same and raise prices?
  - This paper: Consumers are **inattentive** and don't (immediately?) notice changes in package size.
  - Consumers are **more elastic** to changes in **sticker price** than to changes in **unit price**.
- Alternatives
  - Changes in sticker price trigger search behavior
  - Usage of **price points** (ie: \$3.99) (Conlon Rao, AEJ:Policy 2019).
  - Something about cost and pass-through (often during cost spikes).

# What is the paper about?

## Actual vs Perceived Utility

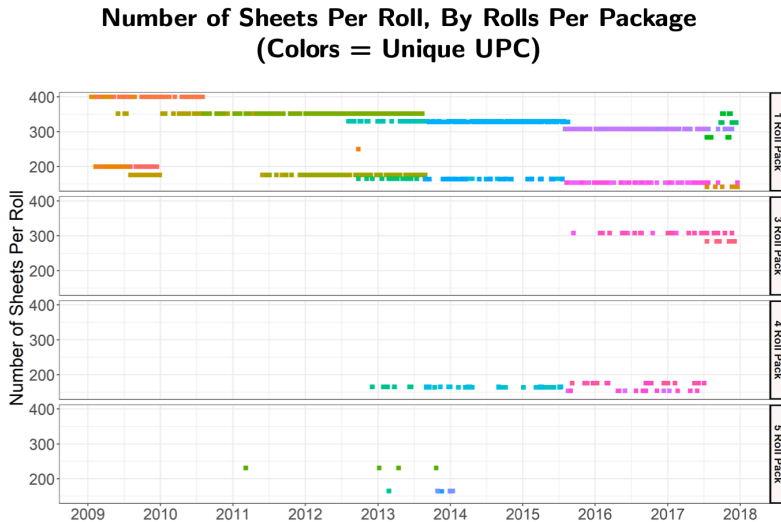
$$U_{ijt}^a = x_{jt}\beta + \gamma_i z_{jt} - \alpha p_{jt} + \xi_{jt} + \varepsilon_{ijt}$$

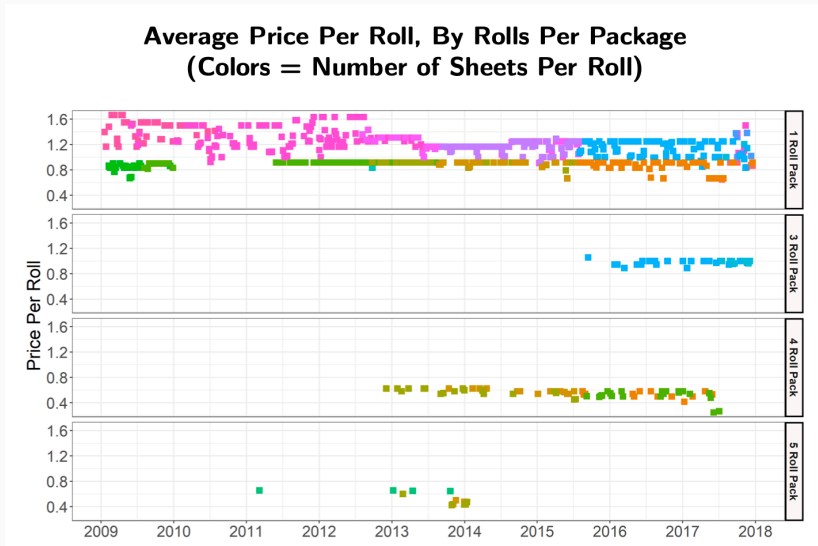
$$U_{ijt}^p = U_{ijt}^a + \tau_{ij} \cdot \gamma_i (z_j^o - z_{jt}).$$

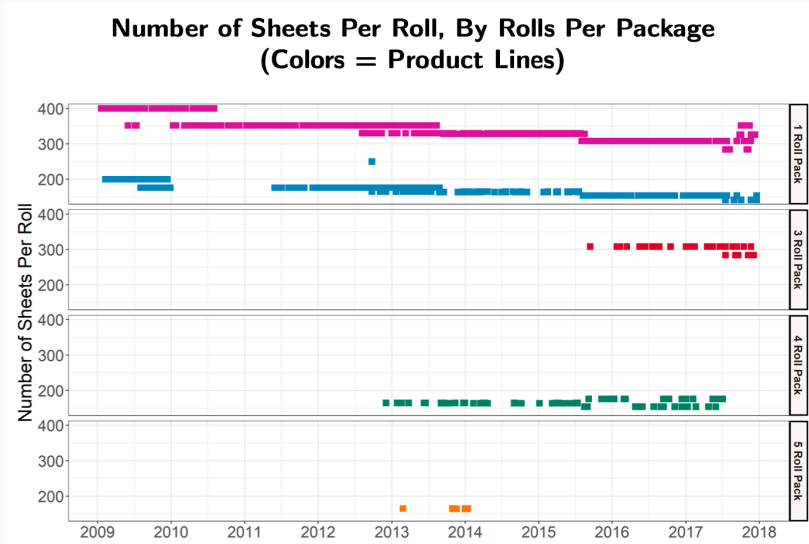
- Inattentive type perceives size as  $z_j^o$  with coefficient  $\gamma$ .
- Attentive type perceives size as correctly as  $z_{jt}$  with coefficient  $\gamma$ .
- Estimate with modification of FKRB (Heiss, Hetzenecker Osterhaus 2021).
- Little to no correlation in  $\tau_{ij}$  across  $j$  within  $i \rightarrow$  Does this make sense?
- No heterogeneity in addition to taste for size?

In some sense what we really want to do is understand:

- Do consumers respond to **sticker price**  $p_{jt}$  or **unit price**  $p_{jt}/z_{jt}$ ?
  - Even more basic than whether they correctly perceive correct size  $z_{jt}$  or  $z_j^o$ .
- While the models can be annoying to work with, this might be a case for **Discrete-Continuous** approach.
- Hard Problem: Separating **inattention** from **persistent brand preference**.

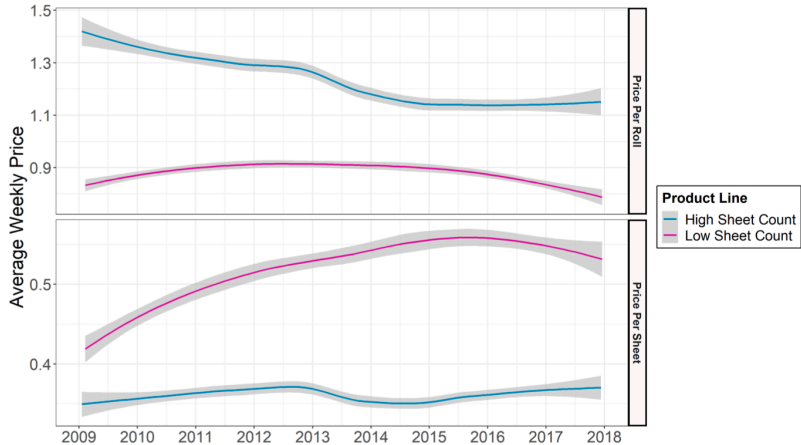








## Average Prices, Per Roll versus Per Package for 1 Roll Packages (Colors = Product Lines)



**Thanks!**

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