In this paper, I present novel experimental evidence for a property of wine and other hedonic consumer products markets that I call “price-quality inversion.” I define this property as an inverse relationship between price and quality, with respect to consumers as a whole, over some sub-interval of the price range of a particular market segment.

I hypothesize that price-quality inversion holds generally across almost all wine consumers, but only above a certain critical price point that differs for each consumer. I call this price point the “intrinsic utility horizon,” which can be derived on an individual consumer level or a market level. I hypothesize that below a given consumer’s IUH, price and liking are either unrelated or positively related, whereas above the IUH, the more you spend, the less pleasure you’ll get from the liquid inside the bottle in blind tasting conditions.

My aim is not only to describe price-quality inversion and evaluate its theoretical and practical implications, but also to make progress in understanding the underlying drivers of this effect. In particular, I hypothesize that two of the main factors driving price-quality inversion are the heterogeneity of wine consumer preferences and the influence of experts. Consumer heterogeneity seems to be driven by two main sources of individual variation amongst wine consumers: first, each individual’s unique sensory perception apparatus; and second, each individual’s unique level of wine education and expertise. I hypothesize that wine expertise shapes individuals' sensory perceptions, giving rise to “acquired tastes” for the types of expensive wines that most consumers start out disliking.

Price-quality inversion is revealed only when consumers sample products blind (i.e. with extrinsic clues concealed). In non-blind tasting settings, the extrinsic cues associated with high-priced or prestigious products—e.g. packaging and labels, price and reputation signals, and published expert opinion—may combine to generate a consumer sensory experience that is pleasurable enough to offset the lower amount of pleasure that comes naturally from the sensory attributes of the product. I propose a utility model as follows:

\[ U = f(U_P, U_Q, U_R, U_S), \]

where \( P \) denotes the market price of the wine and \( U_P \) denotes the price signal component of non-blind utility; \( Q \) denotes the quantity of wine on the market the scarcity signal component of \( U \) perceivable by the consumer; \( R \) denotes a vector of wine ratings and marketing information in the consumer universe, the reputation signal component of \( U \); and \( S \) denotes a vector of all intrinsic sensory properties of the wine with respect to the consumer. In this equation, the \( U_P, U_Q, \) and \( U_R \) terms are the extrinsic signal utility (or information signal utility) terms, whereas \( U_S \) is the lone intrinsic sensory utility term, which is generally modeled as the only component of \( U \) in classical models.
In this paper, I present experimental data from several new empirical tests of this model, and I examine under which conditions it performs best. The data analysis is still in progress, but it will be done well in advance of Mendoza.