

Please, can I pay more?

Jason H. Murray * Jonathan Smith Orgul Ozturk
John Gordanier

April 20, 2008

Abstract

We consider a model of wine-consumer behavior motivated by recent empirical findings that the utility experience of wine is contingent upon beliefs about the wine's quality derived from a price signal (Plassmann et al. (2007)). There are two types of consumers: *sophisticates*, whose utility of wine consumption depends only on a vector of product quality characteristics; and *naifs*, whose utility depends on wine characteristics and price. As the mass of *sophisticates* grows, *naifs* gain welfare from the *sophisticates*' arbitrage behavior which lowers market prices. The welfare gains are enhanced by the increased accuracy of the wine-price signal. When the mass of *sophisticates* is sufficiently low, market outcomes are not efficient.

References

Plassmann, Hilke, John O'Douherty, Baba Shiv, and Antonio Rangel, "Marketing actions can modulate neural representations of experienced pleasantness," *Proceedings of the National Academy of Sciences*, 2007, *105*, 1050–1054.

*jhmurray@moore.sc.edu