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


* jhmurray@moore.sc.edu