

# Please, can I pay more?

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## 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.

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