Consumers with limited attention in a credence goods market

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Summary

Research questions

- How consumers' limited attention affects outcomes in a monopolistic market with information asymmetry (credence goods market)?

Method

- Theoretical model based on Dulleck and Kerschbamer (2006)
- Lab experiment varying consumer attention to the profits of expert

Results

- Increasing consumer attention by explicitly showing expert's profits boosts efficiency:
  - Sellers are more likely to provide sufficient verifiable quality
  - Prices are significantly closer to equal-markup prices

$\Rightarrow$ Provide new explanation of why **verifiability** does not always lead to market efficiency: **consumer's limited attention**

Discussion 1: interesting paper

Policy relevance

- Credence goods often involve important areas of consumers' lives, such as healthcare, legal services, education, and financial advice
- Consumers lack the expertise to evaluate these services independently $\Rightarrow$
- Robust consumer protection mechanisms, regulations, and professional standards are crucial to ensure that consumers receive high-quality services and protection against fraud or deception

Heterogeneity of results with regard to social preference

- Increasing consumers' attention is most beneficial to them when they face selfish experts
- Reduces selfish experts' markup difference
- For pro-social experts, increases probability of providing a sufficient treatment independent of their pricing strategy

Discussion 2: Assumption on the observability of costs

- What if the cost of services for the expert is not observed by the customer, may be observed with a noise, or just the distribution of possible costs is known?
  - It is likely to be the case in credence good markets: repair services, healthcare, provision of software,...
  - What would theory predict in that case?
  - What would experimental evidence show?
- You could also test whether customers in NO ATTENTION condition actually remember costs or not
  - If remember, then maybe it is about showing profits explicitly that matters, even if consumers remember costs? Maybe they do not calculate the profits correctly for another reason?
- Small note: sometimes you write that consumers are reminded about expert's costs in ATTENTION condition, and sometimes you say that they are reminded about profits directly
  - It would be good to be more clear since in the latter case consumers do not need to calculate markups themselves

Discussion 3: Effect of Competition

- In the classic credence goods markets such as repair or healthcare services competition is often present
  - It is easy to model following Dulleck, Kerschbamer and Sutter (2011):
    - First, all four sellers in the group have to post prices, and each of the four consumers is informed about the prices of all four sellers
    - Then, consumers have to choose with which seller, if any, to trade
- Given the posted prices are lower in equilibrium with competition, would the effects of limited attention be still present?

Discussion 4: Effect of reputation/verifiability/no liability assumptions

- It is easy to model those following Dulleck, Kerschbamer and Sutter (2011):
  - Reputation: make pairs not anonymous
  - Non-Verifiability: make it possible for the sellers to charge not correct prices
  - Liability: prevent undertreatment, but not overtreatment
- Would the effects of limited attention be still present?

Discussion 5: Extra points 1

- Many results are driven by the selfish experts
  - Would be interesting to introduce pro-social and selfish experts in the theoretical model as well and explain the differences in the results
- Why not to use risk-averse preferences if find that the players are risk-averse? Would that change results?
- In the experiment, consumer learns through time about "average expert" behavior even in a setting with random matches each period
  - It would be interesting to introduce learning in the theoretical model

Discussion 5: Extra points 2

- Would be good to see the effects of individual characteristics such as age, gender, measures of loss and risk aversion, elicited beliefs
- Didn't see the results of the post-experiment survey on consumers' and sellers' behavior
- "Undertreatment tariff" and "undertreatment price vector" were not defined, first used in Hypotheses formulations, would be better to clarify that it means $\bar{p} - \underline{p} < \bar{c} - \underline{c} = 4$
- It would be easier to follow the results if you used and compared the absolute value of the markup differences