

An Experimental Test of a Person's Perception

--- How the Perception of Tastes Differs under Change in Price ---

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Summary

According to conventional economic theory, an increase in price leads to a decrease in consumption. In other words, the theory of consumer choice is based on the assumption that the consumer's demands are negatively correlated with the price of the product. Price analysis takes the generalized view that demand for products increases as the product's prices decline, and vice versa. This basic view is based on the assumption that consumers are professional shoppers.

However, this may not be true. What the traditional economic theories suggest can be different from actual consumer behaviors. According to the research, consumers expect high quality when the good is relatively expensive because they believe a good's quality is positively correlated with the good's price. Moreover, in certain circumstances, consumers perceive an expensive good better than a cheaper one even if the two goods are same.

In this paper, how the price can disappoint the consumer is examined. The main idea is as follows: when a higher price for a good is presented, the consumer erroneously expects this information is indicating a better quality of the product, resulting in a positive effect. The information of a higher price also raises the reference point for the quality of the product, resulting

in a negative effect. Accordingly, this means that the consumer sets a higher psychological hurdle for the quality of the product to be perceived as a gain.

The new finding of this paper is that the positive effect is larger than the negative effect when a consumer's expectation of the quality of the good is relatively low; on the other hand, the negative effect plays a larger role when a consumer has relatively high expectations. When the negative effect is larger than the positive effect, the consumer will become disappointed with the quality of the product.

The experiment undertaken in the writing of this paper investigated, in the case of coffee, how a person's perception of taste varies according to the price, which influences that person's expectations. The methodology used in this experiment involved a questionnaire, which asked about the taste of coffee when different prices were presented to the examinee. Every examinee drank a cup of the same coffee. Yet, only 5 examinees were provided same price information. They rated the coffee on a scale of 0 to 100, and how the scores changed was analyzed.

The aim of this paper is to contribute to the development of the Prospect Theory. Standard economic models assume preferences are exogenous and stable, whereas recent developments based on experimental evidences in behavioral economics indicate that a consumer's preferences are reference-dependent or status-quo-dependent. Thus, it would appear that assuming exogenous and stable preferences is an oversimplification. However, there are difficulties in applying behavioral economic theories such as the Prospect Theory to many economic problems since the mechanism of how reference points are determined remains to be fully elucidated. This paper aims to contribute to the development of our understanding of the Prospect Theory by examining the effect of different prices on a person's expectation of the quality of the good and reference points.