Discussion of Abito and Salant “The Effect of Product Misperception on Economic Outcomes”

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I love the paper

• Research question is crispy, important and policy-relevant
• Drill down into mechanisms
• Compare competition and information as two potential interventions
• Use multiple, complementary methods
• Shed empirical lights on a well-known theory
Main findings

• The high take-up of extended warranty is mostly driven by consumer misperception
• Consumer misperception is mostly driven by lack of accurate information in failure probability
• Fixing misinformation is much more effective than fixing monopoly power
• Fixing market power without fixing misinformation reduces welfare
Comment 1: product substitution

In the paper:

Consumer $i$ decides to buy product $j$

No EW

EW

Consumer $i'$ decides to buy product $j'$

No EW

EW

Alternatively:

Consumer $i$

$j$

No EW

EW

No EW

EW

$j'$

No EW

EW

Do we lose anything by ignoring product competition within the same store?
Comment 2: price endogeneity

Key identification:
• Assume $\omega_j = \omega(\phi_j) + \xi_j$,
• Focus on pairs of same-category products that have the same failure rate but different prices
• Moment condition:
  $$E[\omega_j - \omega_{j'}|\phi_j = \phi_{j'}, p_j, p_{j'}, t_j, t_{j'}] = 0.$$  

Could \{p_j, p_{j'}, t_j, t_{j'}\} be endogeneous?
• The store sets prices according to perception $\omega_j$?
• Consumers form perception $\omega_j$ based on prices?
• Does using maximum or average price (per product) alleviate the problem?
Comment 3: experiment

The paper has:

- WTP first
- Likelihood first
- Information first

Suggest:

- Price of EW first
Other comments

1. How do \{p_j, p'_j, t_j, t'_j\} vary with each other in the raw data?

2. Does the store have more salesmen devoted to categories with high EW take-up rate or high EW profits?

3. Could “self-consistency” explain the experimental results of likelihood-first?

4. Explore more in income heterogeneity
   – Are low-income households susceptible to misperception?
   – After incorporating the fact that low-income HHs are more sensitive to product and EW prices?