

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

Ginger Zhe Jin

University of Maryland & NBER

I love the paper

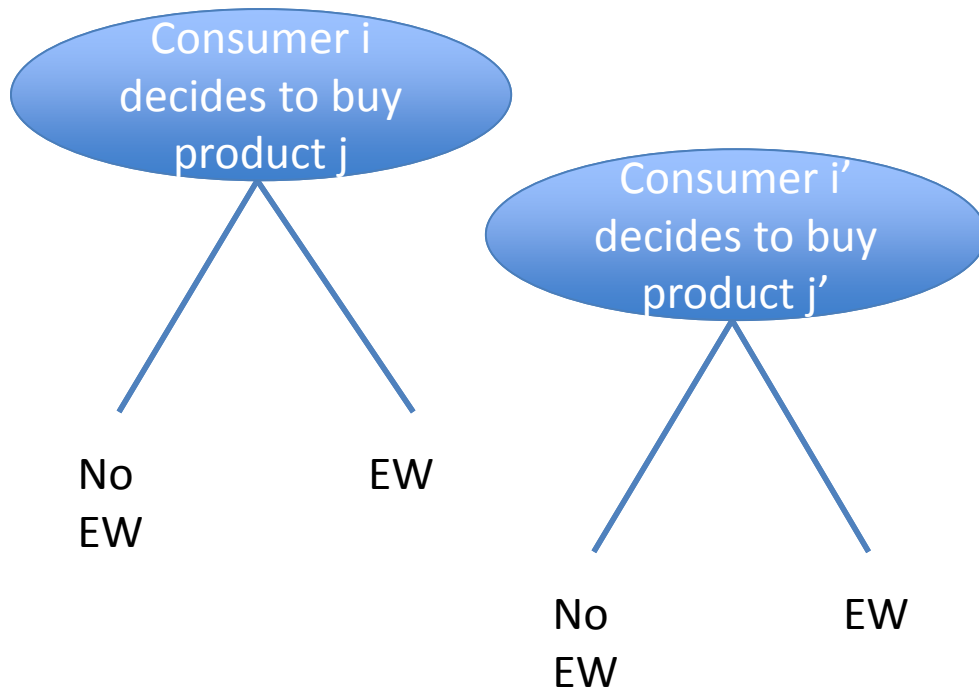
- Research question is crispy, important and policy-relevant
- Drill down into mechanisms
- Compare competition and information as two potential interventions
- Use multiple, complementary methods
- Shed empirical lights on a well-known theory

Main findings

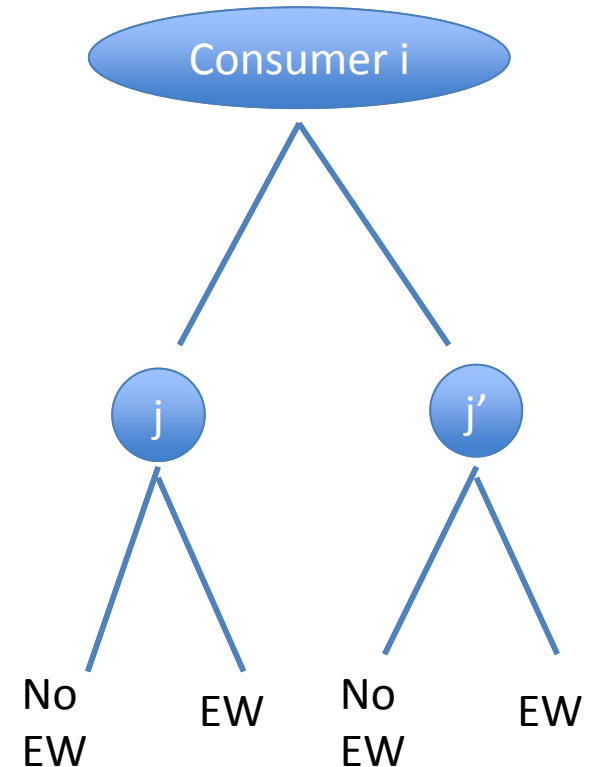
- The high take-up of extended warranty is mostly driven by consumer misperception
- Consumer misperception is mostly driven by lack of accurate information in failure probability
- Fixing misinformation is much more effective than fixing monopoly power
- Fixing market power without fixing misinformation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

Comment 1: product substitution

In the paper:



Alternatively:



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 ω_j ?
- Consumers form perception ω_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 are susceptible to misperception?
 - After incorporating the fact that low-income HHs are more sensitive to product and EW prices?