

■ CONTENTS

<i>Preface</i>	<i>ix</i>
1 Introduction	1
1.1 Bibliographic Notes	7

PART ONE ■ Anticipating Future Preferences

2 Dynamically Inconsistent Preferences I: Unconstrained Contracting	11
2.1 The Multi-Selves Model	12
2.1.1 Naivete	13
2.2 Monopoly Pricing	14
2.2.1 Optimal Price Schemes for Sophisticated Consumers	15
2.2.2 Optimal Price Schemes for Naive Consumers	15
2.2.3 Screening the Consumer's Type	18
2.3 Competitive Pricing	18
2.4 Welfare Analysis	20
2.5 Educating Naive Consumers	21
2.6 The Interpretation of Naivete	22
2.7 Two Applications	23
2.8 Other Topics	25
2.8.1 The (β, δ) Model	25
2.8.2 Preference Heterogeneity	26
2.9 Summary	28
2.10 Bibliographic Notes	28
3 Dynamically Inconsistent Preferences II: Constrained Contracting	30
3.1 Two-Part Tariffs	30
3.1.1 Departure from Marginal-Cost Pricing	31
3.1.2 Welfare Analysis	33
3.2 Destabilization of Commitment Devices: Renegotiation and Spot Market Competition	34
3.3 Self-Control	36
3.3.1 Implications for Monopoly Pricing	39
3.3.2 Do Self-Control Costs Hamper Competition?	40
3.4 Summary	41
3.5 Bibliographic Notes	42

4	Dynamically Inconsistent Preferences III: Partial Naivete	43
4.1	Magnitude Naivete	43
4.1.1	Monopoly Pricing	43
4.1.2	Are More Sophisticated Consumers Always Better Off?	45
4.2	Frequency Naivete	46
4.2.1	First-Best Monopoly Pricing	47
4.2.2	Second-Best Monopoly Pricing	48
4.2.3	Does Competition Curb Exploitation?	51
4.3	Summary	52
4.4	Bibliographic Notes	52
5	Biased Beliefs without Dynamic Inconsistency	53
5.1	Monopoly Pricing with Over-Optimistic Consumers	54
5.1.1	Comparison with Related Models	57
5.2	Overconfidence: Three-Part Tariffs	60
5.3	Unforeseen Contingencies: Add-On Pricing	62
5.4	A Summary Exercise: Insurance Markets with Biased Consumers	67
5.4.1	Equilibrium Analysis When Subjective Beliefs Are Observable	69
5.4.2	Equilibrium Analysis When Subjective Beliefs Are Private Information	70
5.5	Summary	73
5.6	Bibliographic Notes	73
PART TWO ■ Responding to Market Complexity		
6	Sampling-Based Reasoning I: Price Competition and Product Differentiation	77
6.1	A Sampling-Based Choice Procedure	77
6.2	Price Competition and Technology Adoption	78
6.2.1	Nash Equilibrium	80
6.2.2	Welfare Analysis	82
6.3	Spurious Product Differentiation	84
6.3.1	Nash Equilibrium	85
6.3.2	Product Complexity as a Differentiation Device	86
6.4	Can the Market Educate Consumers?	90
6.5	Summary	92
6.6	Bibliographic Notes	92
7	Sampling-Based Reasoning II: Obfuscation	94
7.1	A Model of Competitive Obfuscation	94
7.1.1	Nash Equilibrium	96
7.1.2	Welfare Analysis	100
7.2	Production Inefficiencies	100
7.3	Multi-Dimensional Prices	103

7.4	A Market Intervention: Introducing “Simple” Options	104
7.5	Summary	107
7.6	Bibliographic Notes	108
8	Coarse Reasoning	110
8.1	A Modeling Framework	110
8.2	Complex Price Patterns as a Discrimination Device	112
8.2.1	“DeBruijn” Price Sequences	114
8.2.2	Conditions for Profitability of Complex Price Patterns	115
8.3	Limited Understanding of Adverse Selection	118
8.3.1	A Buyer-Seller Example	119
8.3.2	A Benchmark: A Bayesian-Rational Buyer	120
8.3.3	A “Coarse” Buyer	120
8.3.4	Action-Dependent Feedback	122
8.4	Summary	123
8.5	Bibliographic Notes	124

PART THREE ■ Reference Dependence

9	Loss Aversion	127
9.1	Expected Price as a Reference Point: Monopoly Pricing	128
9.1.1	Reduced Price Variability	130
9.1.2	Impact on Average Prices	134
9.2	Price Uniformity in a Duopoly Setting: “Kinked” Demand	135
9.3	Expected Consumption as a Reference Point: An “Attachment Effect”	138
9.3.1	Personal Equilibrium	139
9.3.2	Price Randomization	141
9.4	Discussion	143
9.4.1	Actual Prices as Reference Points	143
9.4.2	Pleasant Surprises	144
9.5	Summary	145
9.6	Bibliographic Notes	146
10	Inertia I: Price Competition	147
10.1	Price Competition under Consumer Inertia	148
10.2	Price-Frame Competition	151
10.2.1	Nash Equilibrium	153
10.2.2	Equilibrium Properties	157
10.2.3	Two Market Interventions	158
10.3	Consumer Switching	159
10.4	Asymmetric Default Assignment	160
10.5	A Few General Remarks	161
10.5.1	More Than Two Frames	161
10.5.2	Revealed Preferences	163

10.6	Summary	163
10.7	Bibliographic Notes	164
11	Inertia II: Costly Marketing	166
11.1	A Model of Competitive Marketing	167
11.2	Nash Equilibrium	170
11.3	The Effective Marketing Property	176
11.4	Discussion	178
11.5	Summary	180
11.6	Bibliographic Notes	180

PART FOUR ■ Discussion

12	Recurring Themes	183
12.1	Complex Pricing Strategies	183
12.2	Spurious Variety	184
12.3	Market Transactions as a Form of Speculative Trade	185
12.4	How Effective Are Competition and Consumer Protection Policies?	186
12.5	Externalities between Rational and Boundedly Rational Consumers	187
12.6	Conclusion	187
13	But Can't We Get the Same Thing with a Standard Model?	188
13.1	Rationalization via Modified Information	190
13.2	Rationalization via Modified Preferences	194
13.3	Rationalization via Endogenization	196
13.4	Discussion	199
13.5	Epilogue	200
13.6	Bibliographic Notes	201
A	Appendix to Part I: A Decision-Theoretic Perspective	202
A.1	The Multi-Selves Model	202
A.2	Self-Control Preferences	204
A.3	The Relation between Self-Control Preferences and the Multi-Selves Model	208
A.4	Other Classes of Temptation-Driven Preferences	210
A.5	Bibliographic Notes	211
	<i>Bibliography</i>	213
	<i>Index</i>	219