

Research Findings Seminar

“Selling to Reference-Dependent Consumers”

(in English)

Presenter: Mr. LEUNG Hin-shing (MPhil Student)

Date: 17 April 2020 (Friday)

Time: 15:15 – 16:00

Venue: ZOOM Meeting (Registration link:
<https://lingnan.zoom.us/meeting/register/vJcldOispj4uaLZUZRB3RASp92a2U-yCMw>)

Chief Supervisor: Prof. ZHANG Tianle (Associate Professor)

Co-supervisor: Prof. HONG Fuhai (Associate Professor)

Abstract:

This study proposes a set of pricing strategies for a monopolistic firm to set its price when facing reference-dependent consumers, based on a model of reference-dependent preferences by Köszegi and Rabin (2006). The purchase decision made by reference-dependent consumers involve considering the total utility received from purchasing a good which consists of intrinsic utility and gain-loss utility, in which the reference point would affect the gain-loss utility. Firm has to take reference point into its consideration when setting the price of good. This study proposes two set of pricing strategies when facing reference-dependent consumers, namely gain-type pricing strategy and loss-type pricing strategy. These two pricing strategies would maximize the profit to the firm, with a given reference point. However, these pricing strategies should be set under some constraints. This provides a framework to examine the relationship between the reference point and the maximized profit received by the firm. The result shows that when the reference point is either exogenously or endogenously determined, firms will prefer to have a low reference point as possible to maximize its profit. However, this result may not explain in reality why firm would keep a certain level of reference point, which sometimes could be high. This study tries to address this question by considering different scenarios such as adding an advertising cost of firm, consider a participation cost of consumers, and introducing competition to explain the situation as mentioned.

ALL ARE WELCOME

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