Consumers don't always equate higher prices with quality

October 14 2009, By George Lowery

(PhysOrg.com) -- A new Cornell study finds that while higher prices may generate a more positive view of products, a higher price tag doesn't mean consumers will necessarily buy them.

Consumers tend to think that the more things cost, the more they're worth. But a new Cornell study finds that while higher prices may generate a more positive view of products, a higher price tag doesn't mean consumers will necessarily buy them.

Cornell behavioral economist Ori Heffetz and his colleague Moses Shayo of Hebrew University of Jerusalem conducted two food-related experiments to test the link between price and perceptions of quality -- a key precept of modern marketing to status-driven cultures the world over.

Their findings are published in the October issue of *American* Economic *Journal: Applied Economics* (Vol. 1, Iss. 4).

In a laboratory experiment, the researchers asked college students to choose from candies with different prices before and after tasting them. In a field experiment at an upscale Tel Aviv restaurant -- without the knowledge of diners or servers -- the researchers manipulated prices on the prix fixe menu to assess the impact of the food's cost on choices diners made.

In both instances, higher prices didn't cause the expected higher demand suggested from findings in previous studies.

"The results came as a surprise," said Heffetz, an assistant professor economics at the Johnson School. "We expected to find large effects when we started the project, and that did not happen."

Price has some effect on demand, but "The effects were too small to matter," said Heffetz, who also found that participants in the experiment did not clearly favor higher-priced items.

"More expensive products might be perceived as more attractive -- which could increase demand -- but they are also more expensive, which our study showed decreased demand," said Heffetz, who has previously worked on conspicuous consumption, spending in the quest for social status and the effects of prices.

Heffetz cites marketers, anthropologists and philosophers in his work, which aims to anchor economics to real-world situations rather then rely on abstract theoretical models to explain how money moves. "A huge majority of behavioral economists work at the intersection of social science and economics," he said. "I consider myself a behavioral economist, but I'm a minority within those because I read more sociology than I do psychology."

At the Johnson School, Heffetz teaches graduate students about interest rates, inflation, growth, recessions and expansions, and international trade. "I bring insights from research to class," he said. "I try to have my students understand what [Federal Reserve System Chairman Ben] Bernanke and the Federal Reserve do, and look at the links between financial markets and the macroeconomy. Any of these things are strongly related to people's expectations, opinions, beliefs.

"A lot of it is really about what players in the economy think, how they process information, how they form expectations -- a lot of behavioral stuff," he said.

Provided by Cornell University (news : web)

Citation: Consumers don't always equate higher prices with quality (2009, October 14) retrieved 28 April 2024 from https://phys.org/news/2009-10-consumers-dont-equate-higher-prices.html