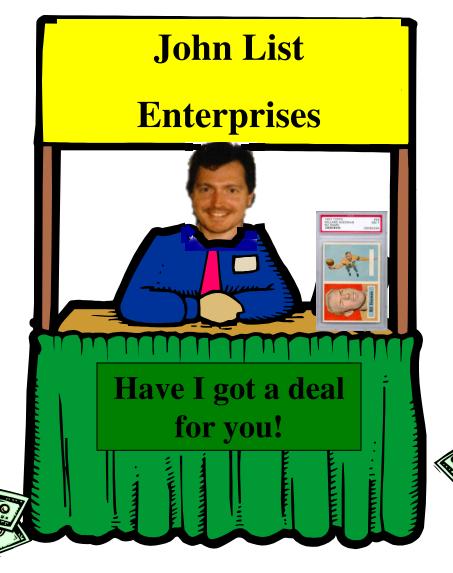
Commitment Costs and the Basic Independence Assumption: Evidence from the Field





Commitment Costs and the Basic Independence Assumption: Evidence from the Field

Or

Have We Been Observing Dynamic WTP & WTA's, But Interpreting Them as Static?

Our Story

Non neoclassical explanations for WTP-WTA disparity pose significant challenge to welfare analysis

Standard neoclassical derivation of WTP and WTA static, but consumers live and act in a dynamic world

Is there a dynamic explanation for the disparity? Is it present in a real transactions?

A Static WTP Story

Story: Jojo considers buying a sports card. Jojo would like to impress his economist friends at a party in 3 weeks with a sports card, but the dealer looks pretty shady....

Jojo assesses:

50% chance of bragging rights = \$G, 50% chance that List is ripping him off, value= \$0

Simple expected value is $G/2 = Jojo's \max WTP$ for the card

A Dynamic WTP Story

Suppose

- In 2 weeks, can get advice on value from his expert friend
- Knows the dealer will still be here in 2 weeks with same or equivalent card
- Can't easily resell the card if he buys it today

What is his max WTP today? \$0

WTP does not equal expected surplus!

A Dynamic WTA Story

New Story: Jojo finds a card in his attic. Jojo's neighbor (John List) offers to buy it for \$G/2, standing offer.

Scenario:

- •50% chance the card is worth \$G to a dealer
- •50% chance the card is junk

In 2 weeks he can attend a card show and find out for sure.





Can this Story Explain Experimental and CVM Disparities?

- Be uncertain about value, but have some ability to learn in future
- If so, clear predictions from theory
 - 1. WTP increases in perceived difficulty of delay
 - intuition: if costly to wait and buy later, WTP more now
 - 2. WTP decreases in perceived difficulty of reversal
 - intuition: if costly to sell if made mistake, WTP less now

Comparative Statics for WTA

- 1. WTA **de**creases in perceived difficulty of delay intuition: if costly to wait and sell later, WTA less now
- 2. WTA increases in perceived difficulty of reversal intuition: if costly to buy if made mistake, WTA higher

WTP and WTA depend critically on costs of delaying and reversing transactions

Specifically

- 1. WTA >> WTP
- 2. WTP>>WTA
- 3. WTA=WTP

if costly to reverse, but easy to delay both if hard to delay, but easy to reverse both if symmetric transaction costs (delay cost in WTP= reversal cost WTA and delay cost in WTA= reversal cost WTP)

Could compute these costs or simply ask participants their perception of how the ease of reversal and delay

Question: Have we been observing dynamic WTP & WTA's, but interpreting them as static?

• Can we find evidence of dynamic behavior in formation of WTP and WTA values?

• Is this dynamic behavior consistent with WTP/WTA "anomaly"?

Empirical Investigation

Market: Sportscard show in Baltimore, Oct 2001

Good: Cal Ripken, Jr 1983 Topps baseball card

BDM: Nth Price Auction

- 1. Each participant submits bid (offer)
- 2. Each bid/offer ranked from low to high
- 3. Monitor randomly draws n [2, T]
- 4. WTP: monitor sells 1 unit of good to each of n-1 highest bidders at nth price

WTA: monitor buys from each of n-1 lowest offers and paths nth lowest price