Economic Inquiry FEDERAL TRADE COMMISSION

Consumer Protection Economics Symposium

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Abstracts

Paper Session 1

Voluntary Disclosure and Earnings Expectations in Multi-Level Marketing

Stacie Bosley, Hamline University

Multi-level marketing (MLM) firms recruit individuals into a business opportunity but are not required to disclose the earnings of past participants. Some MLMs voluntarily create income disclosures, which may serve both marketing and risk-management functions. We create an economic experiment to explore the impact of MLM income disclosure on consumer interest and expectations. Results suggest that disclosure does not significantly alter interest in the business opportunity but does reduce expectations, on average, when subjects are asked to estimate annual income in a lab environment. We discuss findings in the context of current regulatory policy.

Which Communities Complain to Policymakers? Evidence from Consumer Sentinel

Devesh Raval, Federal Trade Commission

I use a large database of millions of complaints to examine how per-capita complaint rates vary across communities, as well as heterogeneity in complaining across different agencies and consumer protection issues. I find higher complaint rates in more heavily black, more educated, and more urban communities and lower complaint rates in more heavily Hispanic and higher household size communities. The demographics of complaints are quite different for the CFPB, with much higher rates of complaints from black and college educated areas compared to the FTC or BBBs. I also find much higher rates of finance related complaints from black communities.

Panel: Analysis of Consumer Welfare & Consumer Protection Policy

Behavioral Welfare Evaluation of Consumer Protection Policies

Hunt Allcott, New York University & Microsoft Research

Professor Allcott will present an overview of recent research at the intersection of behavioral economics and public economics. The talk will cover emerging techniques for measuring consumer mistakes in data, and how those measurements can be used to carry out benefit-cost analyses of consumer protection policies. Applications will include soda taxes and payday lending.

Consumer Response to Information: Evidence from a Field Experiment of Calorie Labels on Restaurant Menus

John Cawley, Cornell University

Consumer response to information is a classic topic in economics. In this talk, I provide a brief overview of the topic and provide evidence from a randomized controlled field experiment of calorie labels on restaurant menus. We estimate that the labels resulted in a 3.0% reduction in calories ordered, with the reduction occurring in appetizers and entrees but not drinks or desserts. Exposure to the information also increases consumers' support for requiring calorie labels by 9.6%. These results are informative about the impact of the new nationwide menu label requirement, and more generally contribute to the literature on the impact of information disclosure on consumer behavior.

Paper Session 2

Free Product Trials

Dmitry Lubensky, Amazon / **Eric Schmidbauer**, University of Central Florida

With a pre-purchase product trial a seller discloses quality but also enables consumers to privately learn match values. This involves a tradeoff between shifting demand up by increasing perceived quality and rotating demand thereby yielding information rents to consumers. In contrast to classic results, costless disclosure occurs only when quality is sufficiently high, and sometimes not at all. Less disclosure occurs for products where match is more important than vertical quality, and for products with fewer gains-from-trade. With commitment sellers instead disclose only if quality is sufficiently low. Finally, mandatory disclosure improves consumer surplus but has ambiguous welfare consequences.

Search Costs, Hassle Costs, and Drip Pricing: Equilibria with Rational Consumers and Firms

Michael Baye, Indiana University

This paper examines drip pricing related to compulsory charges - a situation where firms intentionally make it costly for consumers to discover mandatory fees or surcharges that "drip" into the full (total) price, which is only revealed after incurring the hassle cost of completing a purchase. We show that drip pricing can arise as an equilibrium phenomenon with fully rational consumers and profit-maximizing firms. We also show that, when consumers and firms are rational, (a) situations where drip pricing raises prices and harms consumers are unlikely to arise from unilateral business decisions, and that (b) the most likely avenue by which drip pricing harms consumers is through the coordinated adoption of drip pricing.

A Review of Current Studies and Some Remaining Research Questions in Four Small-Dollar Credit Markets

Thomas W. Miller, Jr., Mississippi State University & Mercatus Center

In recent years, products along the small-dollar loan landscape have received considerable attention from pundits, commentators, reformists, legislators, and regulators. In this paper, we summarize recent academic literature on questions raised in four small-dollar credit products: pawn transactions, vehicle title loans, payday loans, and traditional installment loans from finance companies. In addition, we compile a set of questions deserving, in our opinion, of rigorous academic inquiry.