Decision Research at Warwick Forum Presents

DR@W



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Pricing in an Uncertain Market

(joint work with Gerd Gigerenzer)

Do firms use a heuristic strategy when setting prices? Simon (1955) proposes that in an uncertain environment firms employ a simple heuristic in the form of an aspiration level strategy to set prices. The use of such a strategy would imply that markets are characterized by price stickiness which in turn gives rise to price dispersion. We empirically investigate Simon's proposition by analysing the pricing strategies of used car dealers who operate in a competitive and highly transparent market. Pricing data from an online market shows that the majority of 748 car dealers follow the principles of aspiration-adaptation, rather than competitive, state-dependent pricing. Interviews with dealers in the high-competitive segment of the market eliminate alternative theoretical accounts of price stickiness. We show that a pricing strategy with an initially high aspiration level and an intermediate time interval leads to higher profit than alternative strategies used in the market.

Thursday 9th January 2014, 2.30 p.m.— 3.50 p.m.

Library, 3rd Floor Extension, Wolfson Research Exchange Area, Seminar Room 1

Join us for light refreshments (coffee/tea and biscuits) before the Forum at 2.15 p.m.

This event is free and open to public: **go.warwick.ac.uk/draw**