Comments on Firm Surveys of Pricing

Because price rigidity requires departures from standard model, “putting firms on the couch” likely to be very useful.

A great use of central bank resources.

Regular surveys (and a long term relationship with respondents) are needed for real progress.

Questions asked here mostly borrowed from:

Blinder et. al. 1998

Hall et. al. 2000

Apel et. al. 2001

-Advantage of asking old questions:

learn about ***consistency*** of answers across populations.

-Advantage of asking new questions:

probe more deeply into what is going on

check whether small rewording matters

learn something new.

The clearest lesson from the study is that the answers to certain questions are very consistent across populations.

Consistency across questions that are supposed to measure the same thing (“reliability” in psychometric language) seems to vary and deserves study.

Lots of “validity” questions remain – and will require much more work to be settled.

Answers consistent across populations:

1) “How often do you change the price of your main product”

But, isn’t direct evidence better? Check one against the other.

2) Cost increases are “more important” for price increases while demand decreases are “more important” for price decreases (Hall).

But, delay questions (Blinder) lead to more symmetric answers. Probe the difference.

After a shock: % adjust only after 3 months

	d-up	d-down	c-up	c-down
ES	65	57	68	69
FR	31	28	39	40
PT	50	41	48	47
AT	45	26	33	37

% never adjusting

	d-up	d-down	c-up	c-down
ES	30	23	12	24
FR	23	22	18	27
PT	34	26	9	19
AT	63	52	8	38

Consistently “unimportant” for price rigidity

“It is costly in terms of time and/or money to gather relevant information for pricing decisions.” (Apel)

“Psychological "thresholds" for the price exist.” (Apel found it more important in retailing)

“Physical” (menu) costs.
Unimportant a priori unless prices are listed or posted (ask if they are) - important in retailing?

Consistently “important” statement about rigidity.

“Customers prefer a stable price and a change could damage customer relations, even if competing companies also change their prices” (Apel) “implicit contracts.” – Inconsistent with combo:

If your costs increase are you prevented from increasing the price you charge to existing customers (except after contract re-negotiation?) (Hall – “explicit contracts”)

If “No” might you still refrain from increasing prices to maintain a “good relationship” with some of your customers? (Hall – “implicit contracts”)

French survey:

The existence of a written contract specifying that price can only be adjusted when the contract is renegotiated (good (?) grade).

The existence of an implicit contract (regular contract with a customer without any written contract (average (?) grade).

Lots of questions to ask about “contracts”

Are some of these legally binding?

Do they have an expiration date?

When does seller know how much he has damaged relationship by raising price? When the buyer acquiesces?

How should consistency across pops be reported?

Not by comparing overall ranks of “theories” where questions are different and vector of theories varies from study to study.

Suggestions:

-Report raw scores.

-Focus on bilateral ranks and report which are consistent.

-Incorporate data from predecessor studies.

Price “review” findings.

More frequent than price changes.

Often also “time-dependent.”

Proves “time-dependent pricing”?
We know review does not imply instant change.
But does change imply review the instant before?

Check reliability by asking if firm has ever ...
reviewed/changed at an unscheduled time.

Another complaint: what exactly do you learn from your “markup pricing” questions ?

Italian survey offers choice among

1) A markup is applied to unit variable cost
2) The price is regulated
3) Other (please specify)
4) Don’t know/don’t want to answer

Well known that firms recognize “markup phrase.”
Though this stacks the deck.
But what does it mean for us?

Learning about markup pricing:

Ask whether they compute unit variable cost during price review? (can ask whether they use use historic prices to calculate capital)

Ask whether, when price is changed, it is always set within x% of a markup over this unit variable cost?

If yes, ask whether price changes are automatic when markup deviates from the ideal.

Conclusion:

Useful data on consistency across populations.

Reproduces inconsistencies of answers across similar question – great opportunity to probe why.

Valuable down-payment for research that could meet the standards you ought to impose on yourselves.