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Manufacturer suggested retail prices, loss aversion and competition

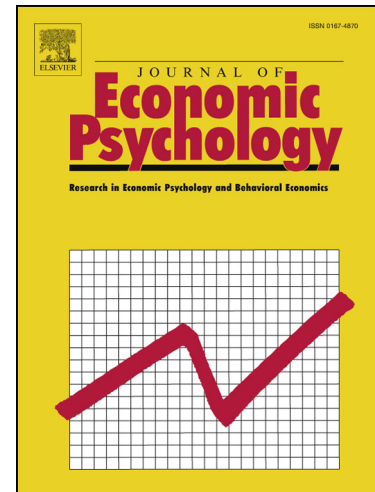
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Abstract

We study a model of vertical relations with imperfect retail competition in which a fraction of the consumers display reference-dependent demand with respect to the manufacturer's suggested retail price. We demonstrate that in equilibrium the suggestion will either be undercut or complied with by the retailers, but never surpassed: undercutting occurs if competition is fierce, the impact from consumers affected by reference-dependent preferences is significant, and high price suggestions are credible; compliance occurs otherwise. We provide comparisons, and discuss implications, for consumer surplus for the scenarios with suggested retail prices, without vertical restraints and with resale price maintenance.

Keywords: reference-dependent preferences, loss aversion, suggested retail prices, resale price maintenance, vertical restraints

JEL codes: D03, D11, L13, L42

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