



ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN  
BERGHEIMER STR. 58, 69115 HEIDELBERG, TEL. 06221/54-2941, FAX: 06221/54-3592  
REDAKTION: FREYA SCHADT, EMAIL: NEWSLETTER@AWI.UNI-HEIDELBERG.DE

---

## AWI This Week

### Monday, 7. 11. 11

#### Departmental Seminar

17.15-18.45

Juan Carlos Carbajal, University of Queensland

AWI 00.010

"Optimal Contracts for Loss Averse Consumers"

### Wednesday, 9. 11. 11

#### Departmental Workshop

17.15-18.45

Andreas Lindenblatt, Heidelberg University

AWI 00.010

"Price Convergence in Europe? Evidence from European Retail Food Prices"

## Jour Fixe

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI.

### Departmental Seminar

Juan Carlos Carbajal

"Optimal Contracts for Loss Averse Consumers"\*

We enrich the standard model of optimal contract design between a monopolist and a continuum of potential buyers under asymmetric information by assuming that consumers have reference-dependent preferences and loss aversion. In our model, consumers are endowed with quasi-linear utilities over the quality parameter of a good sold by a monopolist. The total valuation for quality is composed of the standard consumption valuation, which is affected by privately known types, and an additional gain-loss valuation that depends on deviations of purchased quality from the reference point. Potential buyers are loss-averse, so that deviations from the reference point are evaluated differently depending on whether they are gains or losses. We maintain Kořszegi and Rabin's (2006) basic framework and let gains and losses relative to the reference point be evaluated in terms of changes in the consumption valuation. However, we consider different ways in which reference quality levels are formed. In particular, we consider reference qualities as a monotone function of types. The presence of reference points creates downward kinks in the total valuation for the good, as a function of the privately known types, which renders the standard techniques based on revenue equivalence moot. Nonetheless, we apply a generalization of the standard envelope techniques to derive, for monotone reference functions, the optimal selling contract between the monopolist and loss averse consumers. We find that, depending on how reference points are formed, there is substantial difference between optimal contracts for loss averse consumers and optimal contracts for loss neutral buyers, both in terms of expected revenue generated to the monopolist and quality–price offered to each type of consumer.

\*with Jeffrey Ely

### Departmental Workshop

Andreas Lindenblatt

"Price Convergence in Europe? Evidence from European Retail Food Prices"

This paper studies price convergence within the European Union after the enlargement in 2004 until 2009. Using comprehensive Eurostat data this is the first study able to look at price convergence of retail food prices at a disaggregated level for the old member states (EU15) and the eight new Central and Eastern European member states (EU8). We find that price deviations remain high within the EU - even within EU15. Applying a test for sigma-convergence, we find that prices within the European Union as a whole as well as within EU8 converge significantly in the periods after the accession. In contrast, there is no convergence within EU15, after 1998 prices even diverge slightly. We conclude that price convergence within the EU as a whole is partly driven by the dynamics within EU8, but the main effect must be that EU8's and EU15's prices move towards each other.

## Visitors

Rune Jansen Hagen, University of Bergen, (<http://www.uib.no/persons/Rune.Hagen>) is staying at the AWI for doing research at the chair of Axel Dreher, November 2-11, (room 01.012a).

## New Publications

Bram Driesen: "Alternating offers bargaining with loss aversion" (with Hans Peters and Andrés Perea), in *Mathematical Social Sciences*, forthcoming.

## Miscellaneous

Malte Faber was invited as key-note speaker to present a paper on "The Environmental aspect of `Making People Rich as a Top Priority`: a Marxian Perspective" at the China Institute of Reform and Development, which is one of the major think-tanks. The occasion was the conference on "Surmounting the Middle Income Trap – China in the next Decade", October 29-30, 2011 in Haikou, Heinan, China.

**Editorial deadline for issue 26/2011 of the newsletter:  
Wednesday, November 9, 2011, 12 o'clock  
[newsletter@awi.uni-heidelberg.de](mailto:newsletter@awi.uni-heidelberg.de)**

If you would like to receive the newsletter by email,  
please contact the address above.