What is the question?

As inattention to prices has been proven conspicuous by several studies, an incorporation of Inattention into traditional consumer theory seems essential. Furthermore, it is also important to check if human behavior consistent with the PI-integrated model.

Why is it important?

Inattention due to the costly information gathering process has been of significance recently. Researchers argued that even though accessible information is presented to consumer, consumers are inclined to pay attention to only some information and ignore the rest.

What is the answer?

The author introduce a model modified with Price-Inattention, and finally concludes that the experiment data satisfies PI-General Axiom of Revealed Preference and NIAS inequality.

How did the author get there?

By introducing a buffer in the budget constraint into classical consumer theory, the author offered a plausible model describing purchasing behavior. Later, he constructed the model with stochasticity in prices and bundles (contingent on prices), and then he classified the observable variables, fitting the data into the model and extended ones with M-NIAS/Q-linearity/PI-GARP.

Real-life application/analogy:

When people are making decisions, instead of pondering all pros and cons, they tend to make a swift one with limited consideration. Take grocery shopping for example: As you go for your weekly shopping, you probably make a list of what you plan for dinner in the next week, not detailed bundles contingent on prices. Such cases are prevalent in the daily decision.

What topic may be of further interest related to this theory?

The researchers have done some significant contribution in Price-Inattention and Quality-Inattention, cognitive dissonance might be an interesting topic to delve in. When people make wrong purchase, they may make by and convince themselves that the purchased one is better than the original target. In reality, it may seem that people change their preference, yet it's actually a self-defense mechanism of admitting error.

Terminology:

$\hat{p}$: perceived price

$r_{\hat{p}}$: buffer of planned expense

Both price and bundle sets are stochastic.

NIAS inequality: No-improving-action-switch inequality states it is impossible to improve utility by making wholesale switches from one action to another.

M-NIAS: NIAS with U monotonic in $r_{\hat{p}}$

PI-GARP: Price Inattention General Axiom of Revealed Preference

Reference: NIAS definition

www.standrews.ac.uk/~pm210/BRIC2013/Testable_Theory_2013_06_11.pdf

Inattention theory www.martinonline.org/daniel/research.html