Models of consumer decision making commonly incorporate reference-dependent preferences. In these models, the reference point is typically assumed to be known to the consumer. However, research on price recall and the reference formation process reveals that for most consumers the reference price is often uncertain at the time of purchase. Reference price uncertainty creates ambiguity for the consumer about whether they are getting a good or bad deal. This paper develops a model of consumer choice in the presence of reference-dependent preferences when the reference price is uncertain. Data from three separate studies that vary the product category, use of brand names, and the way reference prices and reference price uncertainty are measured show that the new model generally better describes consumer choice than conventional discrete choice models that either ignore reference prices or treat reference prices as certain. Incorporating reference price uncertainty tends to yields own-price elasticities that are more elastic (sometimes twice as elastic) than those from more conventional reference-dependent models that treat the reference price as certain. The new model provides insights into the effect of reducing reference price uncertainty on consumer choice.

Jayson Lusk currently serves as Regents Professor and Willard Sparks Endowed Chair in the Department of Agricultural Economics at Oklahoma State University and also serves as the Samuel Roberts Noble Distinguished Fellow at the Oklahoma Council of Public Affairs. He’s earned a B.S. in Food Technology from Texas Tech University in 1997 and a Ph.D. in Agricultural Economics from Kansas State University in 2000. His research primarily focuses on predicting and understanding consumer behavior as it relates to food. Since 2000 he has published more than 150 articles in peer-reviewed journals and co-authored books on a consumer research methods, agricultural marketing and price analysis, and the economics of farm animal welfare. His most recent book, The Food Police: A Well-Fed Manifesto about the Politics of Your Plate, was published in 2013. He has been listed as one of the most prolific and cited food and agricultural economists of the past decade and published editorials in outlets such as the New York Times and Wall Street Journal and has made TV appearances on Fox and Friends, the John Stossel Show, and Wall Street Journal Live, among others.