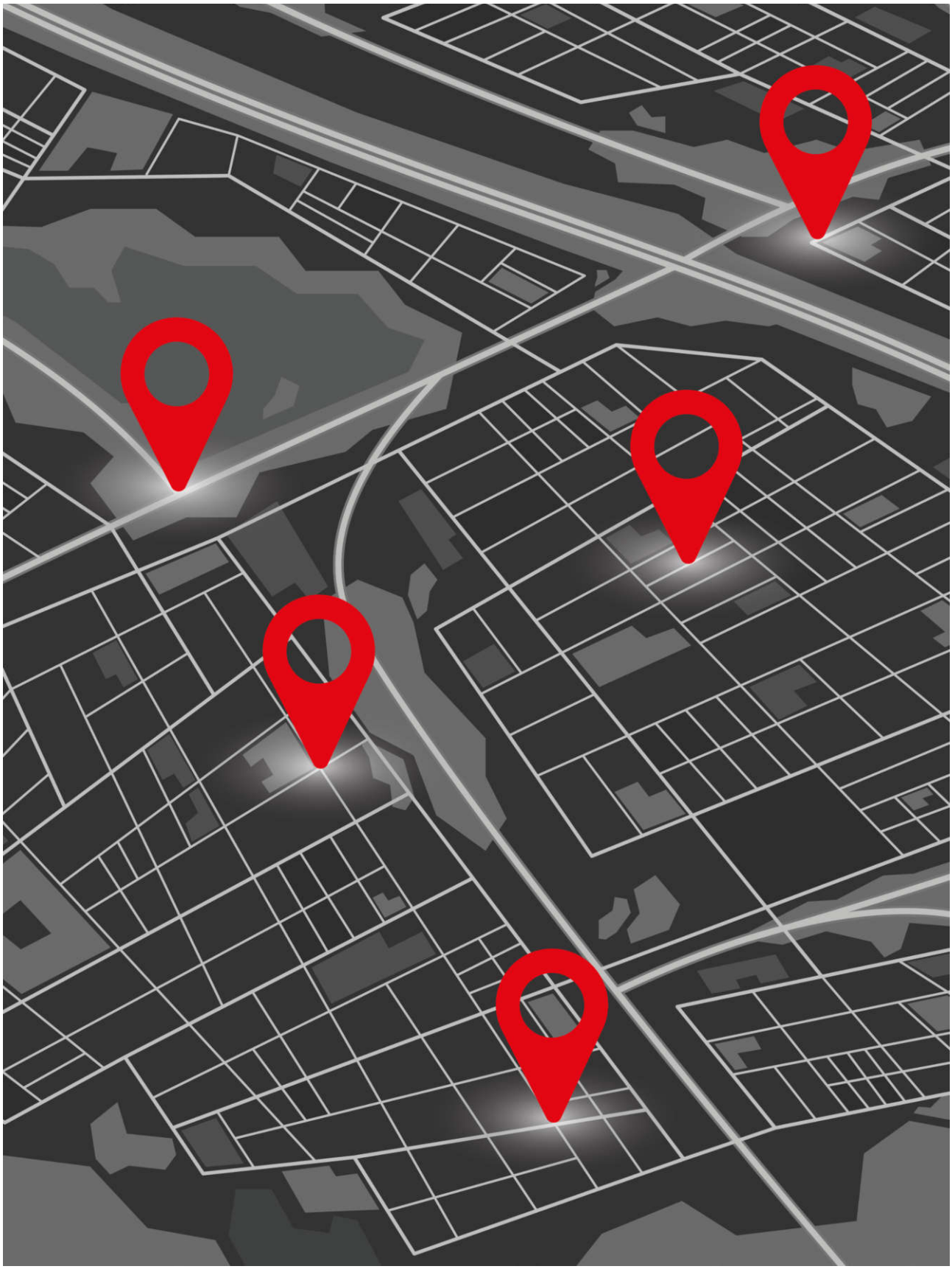
STUDENT AWARDS 2014 - 2026



Quality in parking

EFFECTIVENESS OF DOWNSIZING

Student information
Author: Alexander Hoss
Institution: Erasmus University Rotterdam
Graduation year: 2014

On the effectiveness of downsizing: New evidence from the service industry

"The behavioural revolution" in economics has brought about a shift in economic thinking and modelling away from the traditional assumptions of fully rational individuals to a more realistic set of assumptions incorporating aspects of bounded rationality.

This development has led to the questioning of many well-established economic "rules" which had been found not adequately reflect individuals' behaviour in a real world environment. In this spirit, our study challenges the traditional belief of the neutrality of price framing and the related proposition of rational choice models that claims unit prices to be the final standard of judgment for consumers.

More precisely, we investigate if individuals are more sensitive to a unit price increase induced by an increase in the labelled price than to an equivalent decrease in quantity. Our preferred model provides some support for this view.

An effective strategy

Using a large panel dataset on parking prices and transactions and estimating a dynamic two-way fixed effects model, we find that consumers indeed show significantly less sensitivity to a reduction in the length of the time intervals than to an equivalent increase in the labelled price.

As a result, we suggest that downsizing, the strategy of increasing unit prices by shrinking product size and keeping prices fixed, is an effective strategy also in the service industry.

