

Price adjustment policy of selected agricultural products emphasizing on the partial refunds method

Abstract

Have you ever purchased an item only to notice a short while later that its price was reduced? Many retailers offer to refund customers the full price difference as long as the discount occurred within a short period of time after the original purchase. Such policy looks attractive to consumers as it shields them from future price fluctuations. But can this policy be advantageous for the retailer? In this paper we investigate the price difference refund policy (commonly referred to as price adjustment) and demonstrate how it can result in a higher profit even if all consumers request and receive a price adjustment. Further, the existing literature and practice both assume that if a price adjustment policy is employed, the consumers should get the full price difference refunded. In this paper we endogenize the refund amount, allowing the retailer to determine the optimal percentage of the price difference to be returned to consumers. We fully characterize the conditions under which it is optimal to offer a partial or greater than full price adjustment to customers as well as the optimal refund percentage. Additionally, we demonstrate that the practice of limiting the price adjustment option to a short period after the purchase incident is not necessarily in the best interest of retailers. Under such policy the retailer promises to refund all consumers the full price difference, should the product's price drop within a specified period of time after a consumer purchases it. In order to get the refund, the consumers need to actively request the price adjustment. The purpose of this research is to maximize retail profits by applying agricultural price adjustment policies and maximizing consumer utility. It is shown in this study that the perfect price adjustment only when interest rates are intermittent consumer discounts high enough to the seller, useful to the seller. However, the more realistic assumption is that sellers are far more patient than consumers. So we propose a new management approach: A policy under which the seller promises to repay any future price differences. The study suggested that such a policy would make retailers more profitable.

Key words: Agricultural products, Consumption, Game theory, Price adjustment



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