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Presentation Title

Screening with Frames

(with Denis Shishkin)

Abstract

We analyze screening with frame-dependent valuations. A monopolist principal designs an extensive-form decision problem with frames at each stage. This allows the firm to induce dynamic inconsistency and thereby reduce information rents. We show that the optimal extensive form has a simple three-stage structure and uses only the two highest frames (high-low-high). Some types buy in the first stage, while others continue the interaction and buy at the last stage. The principal offers unchosen decoy contracts. Sophisticated consumers correctly anticipate that if they deviated, they would choose a decoy, which they want to avoid in a lower frame. This eliminates incentive compatibility constraints into types who don't buy in the first stage. With naive consumers, the principal can perfectly screen by cognitive type and extract full surplus from naifs.

Keywords

Screening, Framing, Extensive-Form Decision Problems, Dynamic Inconsistency, Sophistication, Naivete

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