

# **FUKUBUKURO: VALUATION AND CHOICE EXPERIMENTS ON SHROUDED AND BUNDLED GOODS**

## **ABSTRACT**

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*Fukubukuro (or lucky bag) is a familiar retail institution in Japan and other countries for disposing unwanted stock during New Year sales. In fukubukuro, retailers bundle goods into bags. General information about the contents is provided, but details of brands and specifications are concealed. The success of fukubukuro as the seller's price discrimination tool depends on consumers' valuations of and risk preferences for buying fukubukuro. In this study, we conducted the following three laboratory experiments to investigate fukubukuro: two valuation experiments and one choice experiment.*

*The first experiment is a preliminary experiment that aims to provide a first glimpse on how consumers value product lotteries. In particular, we tested whether the attributes of bundling and concealing can raise consumers' willingness to pay (WTP). In the computer-based laboratory experiment, we used a Multiple Price List (MPL) procedure to elicit individuals' WTP for the products. In general, bundling and concealing do not raise subjects' WTP for (bundled) product lotteries. Nonetheless, as we also found some validity problems with subjects' valuations, e.g., the subjects' value bundled products significantly less than single products, we sought to address these problems in the second experiment.*

*The second experiment used the Becker-DeGroot-Marschak(BDM) approach to elicit individuals' WTP and risk preferences when dealing with deterministic product and product lotteries. In general, we found that uncertainty has a negative effect on subjects' WTP for a*

*product lottery: they value the lottery less than the best outcome. Nevertheless, we found that many subjects are risk-seeking and optimistic, especially towards negatively skewed product lotteries. Furthermore, although subjects' WTP responses to bundled product lotteries are less heterogeneous than their responses to single product lotteries, there is no significant advantage of selling bundled product lotteries over single product lotteries in relation to subjects' risk preferences.*

*The third experiment is a hypothetical choice experiment that aims to investigate the effects of risk preference and product knowledge and familiarity on individuals' choice behaviors. We confronted subjects with three options: a certain product, its substitute, and a product lottery. We found that subjects who are risk-seeking or have less product knowledge and familiarity are more likely to choose a product lottery. Furthermore, subjects are more likely to choose a product lottery when the choice task consists of complex products rather than simple products. Finally, the valuation experiment reveals the significant effect of risk preference on subjects' risky choice behaviors, which suggests that subjects have consistent risk attitudes in the valuation and choice tasks.*