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SHORT-RUN SUBSIDIES AND LONG-RUN ADOPTION OF NEW HEALTH PRODUCTS: EVIDENCE FROM A FIELD EXPERIMENT

By PASCALINE DUPAS¹

Short-run subsidies for health products are common in poor countries. How do they affect long-run adoption? A common fear among development practitioners is that one-off subsidies may negatively affect long-run adoption through referencedependence: People might anchor around the subsidized price and be unwilling to pay more for the product later. But for experience goods, one-off subsidies could also boost long-run adoption through learning. This paper uses data from a two-stage randomized pricing experiment in Kenya to estimate the relative importance of these effects for a new, improved antimalarial bed net. Reduced form estimates show that a one-time subsidy has a positive impact on willingness to pay a year later. To separately identify the learning and anchoring effects, we estimate a postconsumption experience-good model. Estimation results show a large, positive learning effect but no anchoring. We then discuss the types of products and the contexts inherent for which these results may apply.

KEYWORDS: Technology adoption, experimentation, social learning, anchoring, malnets, prevention.

1. INTRODUCTION

IN 2010, AN ESTIMATED 7.6 MILLION CHILDREN died before the age of five (Liu et al. (2012)). It is estimated that nearly two thirds of these deaths could be averted using existing preventative technologies, such as vaccines, insecticide-treated material, vitamin supplementation, or point-of-use chlorination of drinking water (Liu et al. (2012), Jones et al. (2003)). An important question yet to be answered is how to increase adoption of these technologies.

A commonly proposed way to increase adoption in the short run is to distribute these essential health products for free or at highly subsidized prices (WHO (2007), Sachs (2005)). There are two main economic rationales to do so. First, given the infectious nature of the diseases they prevent, most of these products generate positive health externalities, and without a subsidy private

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