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Information and subsidies: Complements or substitutes?

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ABSTRACT

Does providing information about a product influence the impact of price subsidies on purchases? This question is particularly relevant for health products in developing countries where both informational campaigns and price subsidies are common policy instruments. We conduct a field experiment in Zambia and find that providing information about a new version of a product significantly increases the impact of price subsidies on take-up. Taken alone, the information manipulation has no significant impact on demand while the price subsidy substantially increases demand. However, the evaluation of either intervention in isolation fails to capture the significant complementarity between the two.

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1. Introduction

Governments and NGOs commonly use both informational campaigns and price subsidies in attempts to increase the use of health products and other socially beneficial technologies in developing countries (Fischer and Shih, 2006; Nugent and Knudt, 2006). The optimal deployment of these policy instruments depends on the way they interact in the policy maker's production function; if providing health products with information about a product changes the demand function, it may also affect the policy maker's optimal level of a price subsidy.

Information about a product can impact demand in two broad ways. First, providing information can affect the overall level of demand. For instance, information can increase demand by allowing consumers to purchase more appropriate products (Dafleki and Zimerman, 2011). Or, if the quality of the product does not match consumers' ex ante expectations, providing information can change the average perception of quality (Carroll and Mehlman, 1996). Second, and more important for our purposes, providing information can change the elasticity of demand (and thus the impact of price subsidies). For example, information can increase the dispersion of consumers' valuations, which rotates the demand curve clockwise, making demand less sensitive to price (Johnson and Myatt, 2005). But, if consumers' initial beliefs are more heterogeneous than their valuations, information will have the exact opposite effect. Moreover, information can reduce the extent of

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Does providing information about a product influence the impact of price subsidies on purchases? This question is particularly relevant for health products in developing countries where both informational campaigns and price subsidies are common policy instruments. We conduct a field experiment in Zambia and find that providing information about a new version of a product significantly increases the impact of price subsidies on take-up. Taken alone, the information manipulation has no significant impact on demand while the price subsidy substantially increases demand. However, the evaluation of either intervention in isolation fails to capture the significant complementarity between the two.

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