Does Consumer Irrationality Trump Consumer Sovereignty?

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Abstract

Scholars working on the border of economics and psychology have documented many contexts in which individual decision-making is unreliable and might be improved by paternalistic interventions. Against this mounting body of negative evidence, economists' default belief in consumer sovereignty has been motivated primarily by theory rather than evidence. The goal of the present study is to see whether there is direct evidence supporting economists' faith in consumer sovereignty in a simple context. We address this question by presenting direct evidence that consumers' own purchases generate between 10 and 18 percent more value, per dollar spent, than items received as gifts.
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According to economic theory, individual utility – and social welfare – are maximized when individuals make their own consumption choices. This justifies the doctrine of consumer sovereignty that underlies standard lessons of economics: for example that lump-sum grants are more efficient than price-changing subsidies or government grants in-kind.[1] An obvious corollary is that consumption choices made by others tend to generate less satisfaction than one's own choices.

While consumer sovereignty is universally embraced as an element of theory, direct empirical evidence justifying economists' deference toward individual choice is, to my knowledge, scarce.[2] On the contrary, scholars working on the border of economics and psychology have assembled an impressive body of evidence that consumer behavior in a large number of laboratory and real-world contexts is not fully rational.[3] In a recent assessment of behavioral economics, Mullainathan and Thaler (2000) argue that, relative to a rational benchmark, actual behavior is constrained by bounded rationality, bounded willpower, and bounded self-interest. Accordingly, the standard economic model is better viewed as a normative model than a positive one (Thaler 1980).

The best-known failures of rationality concern intertemporal and probabilistic choices – saving and financial decision-making – and a number of authors advocate paternalistic interventions in individual decision-making in these sorts of contexts.[4] But as Mullainathan and Thaler (2000) point out, failures are also documented in labor markets, legal settings, and elsewhere, raising the question of whether consumer sovereignty warrants deference in any sphere. Of course, the validity of consumer sovereignty is not an all-or-nothing proposition; it may hold in some contexts and not in others. Accordingly, we follow Kahneman's (1994) suggestion to move beyond asking

"whether or not people are rational" to instead ask when "the assumption of rationality can be retained as a useful approximation." To this end we examine one of the simplest sorts of economic behavior, choice among current consumption goods – such as clothing, books, CDs – to see whether individuals make better consumption choices for themselves than others do.[5] This context is simple in the sense that it is neither probabilistic nor intertemporal, and it involves items familiar to the individual. In short, we ask whether consumer irrationality always trumps consumer sovereignty.

To determine whether ultimate consumers or others are best suited to make current choices among familiar objects, one might ideally run the following field experiment: a) give money to persons ("consumers") and ask them to buy things for themselves, and b) give money to various kinds of acquaintances of the consumer and ask them to purchase items for the ultimate consumer. The researcher would then elicit the consumers' valuations of own purchases and items received from the acquaintances ("gifts"), as well as direct information about the prices paid for items. Consumer sovereignty would be justified for these contexts if recipients valued their own purchases more, per dollar spent, than they valued gifts.

This experiment would be quite expensive to run. Of course, widespread gift-giving rituals make the experiment unnecessary. The Christmas/Hanukkah gift-giving season generates a natural experiment in which individuals receive many "experimental" items chosen by others, and their valuations of these items can be compared against their valuations of a "control sample" of their own purchases. The experiment generates gifts from a range of givers – friends, immediate and extended family members – including those well suited to make paternalistic consumption choices for recipients. To the extent

that friends and family are especially well situated to know recipient preferences, gifts will be highly valued, and the field data will be biased against supporting consumer sovereignty.

While the efficiency of gift giving has not escaped economists' attention, studies of yuletide allocation share an important defect in their lack of an appropriate benchmark.[6] Authors compare estimates of gift valuations to estimates of gift prices, implicitly assuming that self-chosen purchases would have recipient valuation equal to their price. While this is indeed a *marginal* condition in consumer theory, there is no reason to expect *average* consumer purchases to have yields of 100 percent. Consumer theory only implies that 100 percent is a lower-bound on the self-purchase yield. Given that purchases can be infra-marginal, one should expect the average yield on own-purchases to exceed 100 percent. This paper provides evidence about recipient valuation of both holiday gifts and items they have purchased for themselves. It is the difference between these two yields that provides a test for consumer sovereignty in the choice of familiar objects.

Based on a new survey of 1044 gifts, and 538 own purchases, for 202 college students at three US universities during the 2001 gift-giving season, we find that individuals value their own purchases at an average of 18 percent more, per dollar spent, than they value items they receive as gifts (not counting sentimental value). The estimates support consumer sovereignty. Consumers may not be able to maximize utility, but they appear to make better current consumption choices for themselves than others. Our results support economists' deference to consumer sovereignty in a simple current consumption choice context.

The paper proceeds in three sections. Section 1 briefly and selectively reviews evidence of consumer irrationality and explains why, with inframarginal purchases, the own-purchase yield would be expected to exceed 100 percent. Section 2 describes the data used in the study. Section 3 presents results. The conclusion discusses implications of the results for the behavioral critique of standard economics as well as the efficiency of gift-giving.

I. The Efficiency of Own Purchases

1. Behavioral Evidence

There is substantial behavioral evidence that consumers are not fully rational. In an article entitled "New Challenges to the Rationality Assumption," Kahneman (1994) summarizes experimental evidence showing that "people are myopic in their decisions, may lack skill in predicting their future tastes, and can be led to erroneous choices by fallible memory and incorrect evaluation of past experiences." Evidence supporting the behavioral approach to economics is summarized in a variety of places (see Mullainathan and Thaler, 2000), and we provide no systematic summary here.

While the most celebrated failures of consumer choice involve intertemporal choice and choice over probabilistic outcomes, a few aspects of consumer choice described in Kahneman (1994) are close enough to our context – current choice among familiar and certain objects – to warrant description. First, people have trouble predicting what they will like. Simonson (1990) finds that subjects making one snack choice each week select differently than subjects choosing simultaneously for three weeks in advance. The latter group of subjects chose more varied bundles, incorrectly predicting their future preferences. Similarly, Kahneman and Snell (1992) document subjects' poor ability to

predict their future enjoyment of ice cream and yogurt. Second, people have trouble remembering what they have liked. Subjects' recollections are not based on the entirety of an experience; rather they tend to be based on the best or worst parts, as well as the last parts of experiences.

These studies raise serious questions about whether consumer choice would be reliable, even in the most straightforward contexts. Consumer choice may be so unreliable that third parties could do better, although these studies provide no direct evidence on this question.

2. Measurement and an Appropriate Benchmark

In evaluating whether individuals are better at choosing their own consumption bundles than others, it is important to compare consumer valuations of items chosen by others against an appropriate benchmark of their valuation of their own purchases. Existing gift studies assume that own purchases have consumer valuations equal to their prices. While consumer theory implies that rational, maximizing consumers value their last unit purchased at the price paid, it is reasonable to expect average own purchases to be valued above the price paid.

Not all purchases are marginal. Indeed, that is why purchases sometimes generate consumer surplus. Consider figure 1, which depicts a market demand curve for some product. The inverse demand curve is $p(q)$. The product is available at a price of p', and consumers purchase x units of the good. If the good is infinitely divisible, then the *marginal* unit purchased has valuation equal to its price. The average valuation, however, is: $\int_0^x p(q)dq \Big/ x$. As long as the demand curve is not perfectly elastic, this

exceeds *p'*.

Given inframarginal purchases, we expect yields on own purchases to exceed 100 percent. What about gifts? If consumers are perfectly informed, and presumably better informed than givers, then it is impossible for givers to do better than recipients at choosing the recipients' consumption bundles. On the other hand – and especially given the evidence on consumer irrationality – it is possible that givers know more about recipient preferences, and goods, than do recipients.[7] All of this suggests that gift givers more familiar with recipient preferences will choose items more highly valued by recipients, per dollar spent. Indeed, existing studies document higher yields for gifts from givers in more frequent and intimate contact with recipients.

II. Data

To compare the efficacy of own purchases and gifts a researcher might ideally run the following field experiment: a) give money to persons ("recipients") and ask them to buy things for themselves, and b) give money to various kinds of acquaintances of the recipient and ask them to purchase items for the recipient. The researcher would then elicit the recipients' valuations of own purchases and gifts, as well as direct information about the prices paid for items. Consumer sovereignty would be justified if recipients valued their own purchases more, per dollar spent, than they valued gifts.

The data for this study are drawn from a survey in which givers are asked to list gifts received during the recent holiday season (Christmas, Hanukkah), to estimate the price paid by the giver and to provide an estimate of their valuation of the gift item, not counting sentimental value. In particular, respondents are asked to report "the value of the gift to you, not counting sentimental value. To determine its value, perform the

following thought experiment: ***what is the minimum amount you would require to give up the item, assuming that you could not get an identical replacement for as long as it would have lasted? Ignore sentimental value for this."*** (italics in original).

Respondents are then asked, "Now think about things you've bought for yourself recently, and list them below. For each item, write down 1) the amount you paid and 2) the value of the item to you, ***as you estimated value above***."[8]

The instruction to assume that a perfect substitute is not available is to prevent arbitrage-based answers. If a respondent paid $10 for something that he can repurchase for $10, then he may state that it's worth $10 to him, plus the transaction cost. This is, of course, not the theoretically relevant concept, the valuation along the demand curve. The structure of the valuation question is designed to circumvent arbitrage and to elicit a valuation consistent with utility theory.

There is a well-known difference between valuations based on willingness to pay (WTP) and those based on willingness to accept (WTA). WTP valuations tend to be lower, so that WTP-based gift evaluations suggest high deadweight losses at least when compared against an own-purchase benchmark of 100 percent. See Knetsch and Sinden (1984). Our question is designed to elicit a WTA valuation. Because we employ the same valuation concept for both gifts and own purchases, its effect on the deadweight loss estimate is arguably neutral. Similarly, although Ruffle and Tykocinski (2000) demonstrate that wording affects valuation, we employ the same question wording for both gift and own purchase valuation.

We also collect information about the relationship between giver and recipient as well as a rudimentary description of the item. Finally, we collected some information

about the recipients themselves: citizenship, religion, ethnicity, and family income.

The survey was administered in early January, 2002 to 47 students in University of Pennsylvania undergraduate Business and Public Policy courses in "Managerial Economics," 102 students at Michigan State University in an undergraduate "Private Enterprise and Public Policy" course, and 53 students at the University of Chicago in master's-level "American Political Institutions" course.

Table 1 describes characteristics of the 202 recipients in the sample at the three universities. Most respondents at MSU and Penn are male. Roughly two thirds of Chicago and Penn respondents are US citizens, while nearly all MSU respondents are US citizens. The vast majority of Chicago and MSU respondents are white. Most Penn respondents are Asian. Finally, (master's level) students at the University of Chicago report lower income, although this is likely because they are reporting their own income, rather than their parents'.

Table 2 shows, by a variety of measures, how yields vary between own purchases and gifts and, among gifts, how yields vary with the relationship between giver and recipient. The table reports the means and medians of yield and log yield for gifts and own purchases. By all measures, own purchase yields are statistically significantly higher than gift yields. The mean yield and log yield on own purchases exceed the gift yield by 18 percentage points, and the differences are statistically significant. The median level and log own purchase yields exceed the median gifts yields by 4 percent, and the differences are statistically significant, based on Wilcoxon rank-sum tests. The bottom part of table 2 reports gift yields by the relationship between giver and recipient.

Figure 2 presents histograms showing the distribution of log yields on gifts and

own purchases, and the own purchase yield distribution is visibly higher than the gift yield distribution. The spike in both pictures occurs at log yield = 0. While there are some outlying observations (in both distributions), we saw in table 2 that the pattern of medians is similar to the pattern of means, indicating that the difference of means is not driven by outliers. We report results based on log yields, but we obtain very similar results (except for the absolute level of gift and own purchase yields) in unreported level specifications.

The top panel of table 3 shows how log yields on gifts and own purchases, and the difference between own purchase and gift yields, varies by characteristics of the recipient. Own purchases generate significantly higher yields than gifts for all religions, income categories, genders, race/ethnicities (except black, with few observations), and survey sites. The bottom panel of table 3 shows log yields on gifts and own purchases of various items. While the samples are too small within each item to test whether own yields exceed gift yields, own yields are almost always higher than gift yields. One can verify that the items reported as gifts are not independent of the items chosen for own purchase. The associated $\chi^2_{(44)}$=233.2, p-val=0.000.

III. Results

Table 4 describes results, based on a variety of log yield regressions. The first column reports a simple OLS regression of yield on a dummy for whether the item is a gift. The gift coefficient is –17 percent, and it is strongly significant. The second column disaggregates the gift coefficient according to the identity of the giver. Own-purchased items remain the excluded category, allowing the t-statistics to provide direct tests of whether, say, grandparent gifts have higher yields than own purchases. All giver-type

coefficients are negative, and with the exception of significant others, grandparents, and miscellaneous givers, they are all statistically significant as well.

Columns (3) and (4) include recipient characteristics for the 1361 purchases with valid recipient information. Results are very similar to the first two columns, indicating that the results are not attributable to the mix of recipient types.

It is possible that respondents and their givers choose different sorts of items to purchase, with different average yields. While one might argue that this difference is a mechanism for the possible inefficiency of gift-giving, it is also possible that social obligations constrain givers' item choices.[9] Hence, we also compare gifts and own purchases of similar items to fairly isolate the effect of non-consumer choice on consumer welfare. To accomplish this columns (5) and (6) report specifications with item effects for the 45 different items. Item controls have virtually no effect on the coefficients of interest: own purchases generate yields 17.3 percent higher than gifts, and the difference is statistically significant.

It is possible that respondents differ systematically in their valuations of both gifts and own purchases and their relative tendency to receive or report gifts. Then the coefficient on the gift dummy would reflect some combination of the pure gift effect and other factors correlated with receiving gifts. Because we have valuations of own purchases and gift for each person in the sample, we can circumvent this concern by estimating the gift coefficient using within-respondent variation. Column (7) reports a respondent fixed effect regression with item controls. The gift coefficient identified this way is –18.1 percent and significant.

Within respondent, the mix of items purchased for own consumption and received

as gifts may be systematically different. For example, under the social obligation of view of item choice, even the within-respondent identification of the gift effect may overstate the benefit of own purchase (for example, if gifts are low valuation candles while own purchases are high valuation CDs). This could arise from nonrandom reporting behavior as well as, say, constrained giving. If individuals tended to report own purchases of the types of items with high yields, this would bias the tests in favor of supporting consumer sovereignty. A way to deal with both concerns is to measure of the relative efficacy of own purchase via a comparison within respondent and item. That is, we can measure the gift coefficient by comparing valuations of gift and own purchases of the same item. The sample includes 500 instances in which a respondent both purchased and received the same item. Column (8) reports the log yield regression with recipient x item fixed effects. The allocative advantage of own purchase so identified is smaller (11.6 percent) but remains statistically significant. Regardless of what we control for, the log yield on own purchases is at least 10 – and usually about 18 – percent higher than the log yield on gifts.[10]

IV. Conclusion

What do these results imply about consumer sovereignty? The results show that consumers fare better than all types of givers except significant others and possibly grandparents. Can we infer that consumers would fare better than a plausible alternative giver choosing on the recipients' behalf? We have no direct evidence on this, but it seems unlikely that an alternative chooser would do better than friends, siblings, and parents, all of whom have substantial amounts of information about the ultimate consumer's preferences. Notwithstanding the growing list of contexts in which

consumers are irrational, it appears that individuals make more suitable current consumption choices for themselves than others do.

While our results do not challenge the documented irrationality of consumers in other contexts, our results do suggest a limit on the reach of the behavioral critique of rationality. Individuals may be sufficiently bad at making intertemporal consumption choices (and some other types of decisions) that paternalistic interventions could improve their decisions. But others choosers do not seem to outperform individuals for simple current consumption choices. Rationality may be bounded, but irrationality is bounded as well. The results identify a sphere of decision-making – current consumption choices among familiar objects – where consumer sovereignty is warranted. It remains a task for future research to see how far the sphere of deference to consumers extends.

While we confirm that gift giving selects items less desired by recipients than own purchases, it is worth noting that our results say little about the overall efficiency of gift-giving. It is possible that gift-giving achieves some benefit for society that cannot be achieved by other means.[11]

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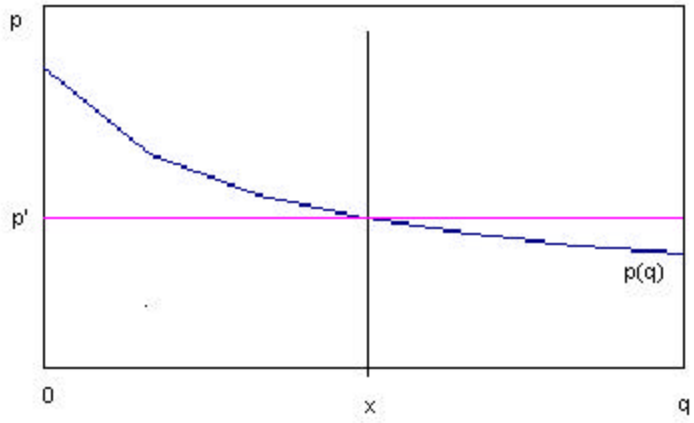
Figure 1: Average Valuation and Price



Note: Average yield is the average valuation divided by the average price.

Figure 2: Log Yield Distributions for Own Purchases and Gifts

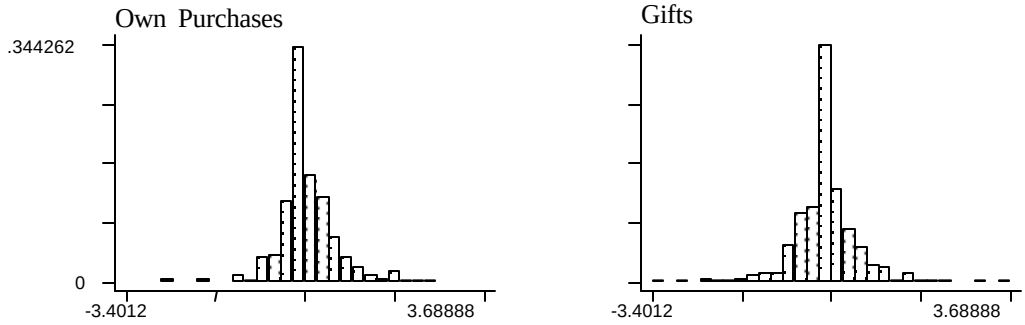


Table 1: Recipient Characteristics

	Chicago	MSU	Penn
under $50	39.62%	5.88%	14.89%
50-100	22.64%	39.22%	29.79%
100-250	20.75%	34.31%	23.40%
over 250	7.55%	10.78%	17.02%
Not reported	9.43%	9.80%	14.89%
US Citizen	69.81%	94.12%	68.09%
foreign	28.30%	2.94%	23.40%
Not reported	1.89%	2.94%	8.51%
Christian	41.51%	57.84%	34.04%
Jewish	9.43%	2.94%	4.26%
Other	37.74%	31.37%	42.55%
Not reported	11.32%	7.84%	19.15%
Female	67.92%	36.27%	31.91%
Male	32.08%	60.78%	57.45%
Not reported	0.00%	2.94%	10.64%
Asian	24.53%	9.80%	57.45%
Black	1.89%	4.90%	0.00%
Hispanic	5.66%	2.94%	0.00%
White	62.26%	78.43%	29.79%
Not reported	5.66%	3.92%	12.77%
N	53	102	47

Table 2: Yields on Own Purchases and Gifts

	level		log		
	mean	median	mean	median	N
Own Purchases	1.433	1.041	0.177	0.040	538
All Gifts	1.253	1.000	0.008	0.000	1044
Own – Gift Yield	t=2.2360	z=6.244	t=5.2926	z=6.058	
(p-val)	(0.0255)	(0.0000)	(0.0000)	(0.0000)	
Gifts from:					
Aunts, Uncles	0.966	1.000	-0.126	0.000	80
Friends	1.158	0.833	-0.137	-0.144	145
Grandparents	1.243	1.000	0.090	0.000	64
Inlaws	1.047	0.750	-0.193	-0.288	25
Misc.	1.374	1.000	0.014	0.000	32
Parents	1.221	1.000	0.043	0.000	446
Siblings	1.228	1.000	0.022	0.000	153
Significant Others	1.828	1.000	0.146	0.000	99

Notes: tests of differences of means (medians) are t-tests (Wilcoxon rank sum tests).

Table 3: Log Yields of Gifts and Own Purchases, by Recipient Characteristic and Item

A. By recipient type	Gift log yield	N	Own purchase log yield	N	Own purchase – gift log yield	p-val
Christian	0.0436	569	0.2015	269	0.1579	0.0002
Jewish	-0.0274	33	0.3402	30	0.3676	0.0068
Other	-0.0118	343	0.1713	178	0.1831	0.0011
under 50	0.0396	163	0.2006	89	0.1609	0.0381
50-100	-0.0135	348	0.1327	187	0.1463	0.0024
100-250	0.0383	309	0.2683	152	0.2300	0.0001
over 250	0.0000	131	0.2335	63	0.2335	0.0145
Male	-0.0031	498	0.1792	268	0.1824	0.0000
female	0.0225	517	0.1664	253	0.1438	0.0038
Asian	-0.0873	226	0.1384	138	0.2258	0.0009
Hispanic	-0.1834	28	0.0587	17	0.2421	0.1300
black	0.1327	28	0.3318	12	0.1990	0.3056
white	0.0483	717	0.2157	341	0.1674	0.0000
Chicago	-0.0151	295	0.1287	171	0.1438	0.0229
MSU	0.0496	521	0.1493	245	0.0998	0.0169
Penn	-0.0572	221	0.3008	122	0.3580	0.0000
B. By selected items						
sweater	-0.0824	98	0.1712	40	0.2536	0.0044
book	-0.1072	50	0.0174	50	0.1246	0.2610
shirt	-0.0310	61	0.2670	31	0.2980	0.0465
CD	0.0193	48	0.1230	43	0.1037	0.4718
clothes	-0.0640	46	0.1521	43	0.2160	0.0870
electronics	-0.0540	58	0.0723	25	0.1263	0.3386
shoes	0.0409	26	0.1688	49	0.1278	0.3069
jewelry	-0.0090	64	0.2379	10	0.2469	0.2895
DVD	0.1346	44	0.2601	20	0.1255	0.4197
jacket	0.0749	37	0.4686	27	0.3937	0.0023
cash	0.0337	60		0		
gift certificate	-0.0061	60		0		
kitchen/appliance	0.1032	47	0.2191	10	0.1159	0.6816
pants	0.0266	22	0.2795	26	0.2529	0.1012
hat, gloves, scarf	-0.0086	32	0.0904	13	0.0991	0.4988
cosmetics	-0.2013	24	0.3572	8	0.5585	0.0416
jeans	0.1545	10	0.1429	21	-0.0116	0.9351
videogame	0.1042	16	0.2238	14	0.1196	0.6093

Note: log yield is the logarithm of the ratio of the item valuation to its estimated price, with both numerator and denominator as estimated by the respondent. The p-val is from a two-sided test of the hypotheses that own purchases and gifts have the same log yield.

Table 4: Log Yield Regressions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Received Item as Gift	-0.1687		-0.1903		-0.1725		-0.1813	-0.1163
	(0.0319)**		(0.0332)**		(0.0342)**		(0.0293)**	(0.0529)*
Aunt/Uncle Giver		-0.3033		-0.3410		-0.3084		
		(0.0719)**		(0.0740)**		(0.0752)**		
Friend Giver		-0.3140		-0.2946		-0.3263		
		(0.0563)**		(0.0614)**		(0.0595)**		
Grandparent Giver		-0.0866		-0.1277		-0.1178		
		(0.0795)		(0.0802)		(0.0852)		
Inlaw Giver		-0.3697		-0.3319		-0.4078		
		(0.1221)**		(0.1287)*		(0.1227)**		
Misc. Giver		-0.1627		-0.1056		-0.1728		
		(0.1086)		(0.1100)		(0.1099)		
Parent Giver		-0.1346		-0.1751		-0.1408		
		(0.0382)**		(0.0398)**		(0.0399)**		
Sibling Giver		-0.1548		-0.1789		-0.1356		
		(0.0548)**		(0.0568)**		(0.0562)*		
Signif. Other Giver		-0.0310		-0.0345		-0.0690		
		(0.0653)		(0.0680)		(0.0673)		
Constant	0.1771	0.1771	0.2063	0.2038	0.1593	0.1607	0.1717	0.1173
	(0.0259)**	(0.0257)**	(0.0558)**	(0.0557)**	(0.0647)*	(0.0646)*	(0.0561)**	(0.0399)**
Observations	1575	1575	1361	1361	1570	1570	1570	500
R-squared	0.02	0.03	0.03	0.05	0.07	0.08	0.11	0.02
Includes:			Recipient characteristics	Recipient characteristics	Item dummies	Item dummies	Recipient fixed effects	Recipient x item fixed effects

Notes: Dependent variable is the ratio of the item valuation to its estimated price, with both numerator and denominator as estimated by the recipient. Standard errors in parentheses. * significant at 5%; ** significant at 1%.

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[1] See, for example, Pindyck and Rubinfeld (2001), p.83, for a characteristic illustration of the welfare superiority of cash grants. Persky (1993) discusses the origin of the term, "consumer sovereignty."

[2] There are studies evaluating the efficiency of government in-kind transfers. See Murray (1994) and Smolensky, et. al. (1977). These studies contain no direct evidence on the efficiency of consumers' own choices, however. While there are few direct tests of consumer rationality, there is a great deal of broad evidence of consumer rationality, for example in the basic efficiency of financial markets.

[3] Much behavioral research grows out of Simon (1955). Kahneman, Slovic, and Tversky (1982) and Kahneman (1994) document many failures of rationality.

[4] Assessing a body of negative evidence on consumer rationality, Kahneman (1994) suggests that "the observed deficiencies [in consumer rationality] suggest the outline of a case in favor of some paternalistic interventions, when it is plausible that the state knows more about an individual's future tastes than the individual knows presently." Similarly, Sunstein and Thaler (2003) present a case for "libertarian paternalism."

[5] One might think that the answer is obvious. But introspection suggests that the reason it appears obvious is faith in consumer theory, rather than evidence. And if consumer theory were a generally correct positive theory, there would be no behavioral anomalies in intertemporal consumption choices, or other contexts, either.

[6] A number of studies ask how highly recipients value the gifts they receive; and the conclusions are mixed. Waldfogel (1993) documents that, ignoring sentimental value, Christmas gift recipients value their gifts at less than their apparent costs to the givers, which suggests that consumers are better than others at making their consumption choices. A number of subsequent studies (Solnick and Hemenway, 1996; List and Shogren, 1998) challenge these results, with findings that recipients value gifts above the prices that givers pay for them.

[7] Ruffle and Kaplan (2001) present a search model in this spirit in which gift giving need not be inefficient.

[8] It is difficult to know whether reported own and gifts purchases are equally representative of underlying populations of gifts and own purchases. We address this below by conditioning on item chosen. That is, we compare the gift and own purchase yields on, say, sweaters within individuals both receiving and purchasing sweaters. See the results for further elaboration.

[9] Candles are rare own purchases and comparatively common gifts. To the extent that this arises because of a suitability of candles and an unsuitability of more practical things (rather than simply giver ineptitude at choosing items for the recipient), it would be unfair to use the gift-own purchase differential to justify consumer sovereignty.

[10] One possible mechanism for the results is that gifts and own purchases differ in quality. Hence, even after controlling for item, individual, or both, gifts from significant others may be of higher quality than gifts from, say in-laws.

[11] For example, gift-giving may allow givers to demonstrate their keen understanding of recipient preferences (Prendergast and Stole, 2001), impose reciprocal obligations on recipients (Mauss, 1925), internalize consumption externalities (Solow, 1993), exploit informational advantages of givers in a search context (Ruffle and Kaplan, 2001), provide social signals (Camerer, 1988), or gift giving customs may operationalize links between individuals (Bernheim and Bagwell, 1988).