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Can Higher Prices Stimulate Product Use? Evidence from a Field Experiment in Zambia

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The controversy over how much to charge for health products in the developing world rests, in part, on whether higher prices can increase use, either by targeting distribution to high-use households (a screening effect), or by stimulating use psychologically through a sunk-cost effect. We develop a methodology for separating these two effects. We implement the methodology in a field experiment in Zambia using door-to-door marketing of a home water purification solution. We find evidence of economically important screening effects. By contrast, we find no consistent evidence of sunk-cost effects. (JEL C93, D12, I11, M31, O62)

Nonprofit approaches to the distribution of health products in developing countries are often grouped into “social marketing” and “public health” categories, with the former emphasizing retail sales and the latter emphasizing free distribution through health clinics. Advocates of the public health approach often object to the use of prices to modulate distribution. Critics of pricing argue that “charging people for basic health care...[is] unfair” and that fees ensure that goods only reach “the richest of the poor.” Advocates of pricing counter that “when products are given away free, the recipient often does not value them or even use them.”

The latter argument is commonly interpreted to mean that higher prices cause greater product use through a sunk-cost effect (Richard Thaler 1980; Erik Eyster 2002). An equally plausible

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¹ Ben Hilary, 2006, “Marketing Our Products in Poor Countries,” Speech, London School of Hygiene and Tropical Medicine, London, June 15, 2006. <http://web.archive.org/web/20060615090000/http://www.dhs.gov/GlobalMediaRoom/Speeches-and-articles/2006-06-15-Marketing-our-products-in-poor-countries/>

² Michael Doucoulires, 2005, “A Program to Fight Malaria in Africa Draws Questions,” *New York Times*, June 11.

³ Population Services International (PSI), 2006, “What is Social Marketing?” http://www.psi.org/pressreleases/what_is_socialmarketing (accessed September 4, 2006).

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