

Justus Haucap

Professor of Economics
University of Erlangen-Nuremberg

Co-Author(s):

Ulrich Heimeshoff, Ruhr-University of Bochum
Ralf Dewenter, Ruhr-University of Bochum
Christian Pfeil, University of Wuppertal

Customer Confusion in Mobile Telecommunications Markets

The present paper analyzes customer confusion in the German mobile telecommunications market. Based on an extensive survey of 1063 participants, we find that customer confusion plays a significant role in mobile telecommunications markets. Customers systematically chose more expensive tariffs than they need to, even taken into account uncertainty about calling patterns. Apart from the well-established flat-rate bias, we also find that consumers systematically underestimate the benefits of cheaper on-net calls. While this may be considered bad news with respect to consumer rationality, it may be good news from a competition policy perspective.: If customers underestimate the benefits of cheaper on-net calls, it is more difficult for larger operators to erect barriers to entry via on-net/off-net price discrimination.

Our results also suggest that the customers' years of experience with the mobile telecommunications markets, does not lead to a reduction in either the flat-rate or the off-net price bias. Finally, we also analyze whether some mobile network's customers are more rational than others to answer the question whether an incumbent's customers (often early adopters) are smarter than the entrant's customers.