Comments on

"Understanding the role of trade-ins…"

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Motivations

- Trade ins in practice
- Rationale "remains unexplored in the literature"
- "no empirical work examining this phenomenon"

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Model Features

- Co-existence of new and used goods markets
- Consumer heterogeneity
- Cannibalization
- Lemons problems

Main Conclusion

- In stationary equilibrium, when a producer accepts trade-ins, he will charge a new good price of p_r to consumers who trade-in and a new good price of $p_{mr} > p_r$ to consumers who do not trade-in.

Rationale

A related form of indirect price discrimination are trade-in discounts. For example, a camera store may offer a $50 discount on the purchase price of a new camera for anyone who trades in an old camera. Individuals with old cameras are likely to have more elastic demands for new cameras than consumers with no cameras to trade in, because the old camera is likely to be a close substitute for a new camera. By offering trade-in discounts, retailers provide an incentive to their customers to group themselves according to their elasticity of demand.

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Is the adverse selection necessary?

- Let s=0

Is the adverse selection sufficient?

- More investigations needed