



Università
di Genova

DIEC DIPARTIMENTO
DI ECONOMIA

Economics and Quantitative Methods PhD Seminar Series

“The Inferiority Premium: Evidence for Price-Quality Inversion in Sensory Consumer Markets”

ROBIN GOLDSTEIN (UC DAVIS)

Abstract

In economics and marketing literature, an assumption often prevails that higher-priced goods are generally correlated, albeit imperfectly, with higher product “quality.” This paper challenges that assumption, drawing on evidence from several blind tasting studies that show inverse correlations between price and consumer preferences may be a widespread occurrence across a variety of different product types. In this paper I first explore the definition of “quality,” a word that is used differently in different fields and industries. Next, I state some hypotheses about which types of products and conditions might give rise to price-quality inversion, and I test these hypotheses with several small-scale pilot studies in blind-tasting settings that elicit sensory preferences for wine, cola, salmon, and vodka. Preliminary results confirm an earlier finding in Goldstein (2008) and suggest that consumers often prefer lower-priced goods when stripped of branding. I call this phenomenon “price-quality inversion,” and I argue that it can be explained, in part, by the tendency of producers of niche or “geek” goods (such as craft beer), who sometimes cultivate idiosyncratic styles that diverge from mainstream sensory characteristics found in the most popular products on the market. Experts and influencers endorse these geek goods, and the goods are often more scarce than ordinary goods, driving consumers to pay more for the products even when they may derive less sensory pleasure. I call this price premium for worse-tasting goods the “inferiority premium.” I argue that price-quality inversion and the inferiority premia, rather than signaling irrationality or information asymmetry, may actually be rational and optimal given consumer demand (accounting for both sensory and social utility), supply dynamics, and market conditions. My findings challenge prevailing economic and marketing assumptions about the price-quality relationship and point toward the need to reconsider how the notion of “quality” is defined, measured, and used in consumer research.

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Aula Acquario