

# Two-Block Tariffs, Heterogeneous Consumers, and Counterfactual Thinking

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## Abstract

Many contracts are piecewise linear in practice. I consider two commonly used simple forms of nonuniform pricing, two-block and two-part tariffs. The objectives of this study are to (1) examine how to derive the profit-maximizing two-block price schedule in a principal-agent problem under adverse selection, and (2) investigate the effects of psychological aspects of decision making such as counterfactual thinking, and heterogeneity across agents on the efficacy of simple contracts. Regarding the validity of simple contracts, it turns out that counterfactuals enhance the performance of the profit-maximizing two-part tariff relative to block tariffs on the entire region of the relevant parameter values.

Keywords: multipart tariffs, counterfactuals, consumer heterogeneity, asymmetric information

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