

Information and Willingness-To-Pay

Peter W. Kennedy

Environmental goods are by their nature less familiar to most people than market goods. People often have little cause to become informed about such goods precisely because they are not market goods; the sort of information that people usually acquire in order to improve the quality of market purchase decisions has no value in this context.

This inherent uncertainty about environmental goods makes the task of measuring their value a difficult one. For example, contingent valuation attempts to simulate a market for an environmental good by confronting survey participants with a purchase decision. The survey participants are thereby removed from a non-market setting in which they had little cause to become informed about the good to be valued and placed in an artificial market setting in which information is now important. How much information should these participants be given about the good to be valued?

This question raises a more fundamental question: how should we define willingness-to-pay (WTP) under uncertainty when prior information acquisition is possible? This paper addresses that general question and then relates the insights obtained back to the issue of information provision in contingent valuation.

I examine a very general setting in which an individual is faced with a purchase decision on a good whose characteristics are uncertain. At some cost she can acquire information to resolve that uncertainty prior to making a purchase decision. I begin by showing that whether or not she will acquire information depends on the cost of the information service and the price of the good.

I then consider the measurement of WTP in this setting. I show that WTP is endogenous, in the sense that the highest price the individual is willing to pay depends on the price she is actually asked to pay, because the asking price determines whether or not she acquires pre-purchase information. I propose *conditional option price* as a measure of WTP in this setting and I relate this to the notion of quasi-option value.

I then examine the implications of these results for the valuation of public goods. I show that the specific cost-benefit context in which the value of a public good is assessed matters for how that value is measured; it is not possible to place a value on a public good independently of the specific policy context in which that valuation is to be used.

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Correspondence:

Department of Economics
University of Victoria
Victoria, British Columbia V8W 3P5
Canada
pkennedy@uvic.ca