

Abstract

We analyze vertical relationships between a manufacturer and competing retailers when consumers have reference-dependent preferences. Consumers adopt the manufacturer's suggested retail price as their reference price and perceive losses when purchasing above the suggested price and gains when purchasing below it. In equilibrium, retailers undercut price suggestions and the manufacturer suggests a retail price if consumers are sufficiently bargain-loving and perceive retailers as sufficiently undifferentiated. The manufacturer engages in resale price maintenance otherwise. Consumers can be worse off with suggested retail prices than with resale price maintenance, prompting a rethinking of the current legal treatment of suggested retail prices.