

Haggling over prices
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middle eastern
countries, and
elsewhere in...



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Haggling over prices is a very frequent procedure in many African, Eastern European, Caribbean and Asian economies. It is also experienced in flea markets and farmers markets in developed countries but this bargaining feature is of a lesser extent. In Turkey, bargaining is extended to include many less valuable items, especially unique handmade goods such as carpets, crafts, artwork and antiques, items which do not have standardized markets. You can bargain for any item you want to purchase in Turkey. Many people find bargaining tiresome and unpleasant. Pazarlik (bargaining) is a social as well as a business practice in Turkey.

Riley and Zeckhauser (1983) argue that haggling, as opposed to fixed posted prices, is sub-optimal for a seller. This is because haggling makes it difficult for a seller to post a high price if buyers know that they can always haggle and buy the good at a lower price. Shopkeepers also don't post prices because posted prices may be used to prevent collusion between buyers and sales agents.

Bester (1994) argues that if the buyer's cost of switching sellers is relatively low, then most trade will be conducted via haggling. Arnold and Lippman (1998) proved that sellers prefer posted prices when buyers have a sufficiently high bargaining ability. Also, since there is a lot of variance in the quality of goods in developing countries, buyers are unwilling to accept posted prices because of quality uncertainty. Allowing buyers to bargain over prices makes them feel more comfortable about getting a price which matches their perceived quality of the commodity.

In this essay I offer another explanation for why there are posted prices in some situations and haggling in others. In situations where there are no principal/mediator problems, haggling should be more prevalent than posted prices. This is because there is no reason for the seller to minimize the price at which the good is sold; the seller is the sole remaining claimant of the profit from the transaction. Haggling is therefore more likely in small businesses and among market bazaars in developing countries where there is no separation of ownership and control or where there are less likely to be mediator problems.

In contrast, in big businesses and super-markets where there are likely to be mediator problems, the principal has the incentive to post prices rather than giving salesmen (i. e., agents) the will of negotiating the price with buyers. With posted prices, sales agents cannot reduce the price at which the good is sold. One may argue that the principal could instruct sales agents to bargain over the price subject to the condition that the good is not sold below some minimum price. However, there may be no point in doing so if bargaining is time-consuming and if the principal is likely to end up with the minimum price anyway (given that the sales agents have the incentive to reduce the bargained price and report the minimum price). The frequency of this practice could also explain why bazaars or market women and small retail businesses are able to compete with established super markets in developing countries for example in Turkey; market/bazaar shopkeepers and small retail businesses allow for price bargaining and opportunity for quantity bonus, but supermarkets do not.

Indeed, in some cases when a buyer asks a seller for a price, the seller will not quote a price but will instead ask the buyer to quote a price. This is because the shopkeeper/seller knows that any price he/she quotes in response to the buyer's question " what is your price" will be followed by a lower quoted price by the buyer resulting in bargaining. Indeed, the seller expects buyer to bargain and will be surprised if he didn't as in the case of shopkeepers in Turkey's Grand Bazaar and other tourist markets.

When shopkeepers cannot post prices (as in the case of Turkey), they might try to compete by offering non-price bargaining deals. Once Sellers and/or buyers accept price bargaining as the process by which price is determined in these markets, then there is room for quantity bonus. Quantity bonus occurs when the buyer expects extra quantity to be given, according to the goods bought.

From some shopkeeper's perspectives, no-haggle pricing means they would not be able to offer their ' dedicated' customers a better price, in appreciation for, say, their loyalty. The advertised price is fixed for everyone. From another perspective, some shopkeeper's find that customers will take their no-haggle fixed price and use it as a starting point at a competing business. Even within the same kind of business, shopkeepers are not partners - but are competitors.

To answer the second part of this question, which states that Turkish shopkeepers and Turkish street traders have a more proactive selling approach than European or American sellers is because of a number of reasons. Firstly, as the case suggests the Grand Bazaar or tourist areas are

filled up with shops selling the same goods, hence if the shopkeeper is not proactive and haggles with the buyers then he/she tends to lose the customers to other shopkeepers. Business is very competitive because of the clustered shops selling the same goods.

Secondly, in a country like Turkey, where the level of poverty is very high; and people's uncertainty over retirement and health problems are ever increasing, sellers have no choice but to make a sale otherwise risk starvation. And hence for them to make a sell the sellers have to be more proactive in their selling approach. In Turkey, being a proactive seller is viewed as doing business in a normal and desirable way, although Westerners might consider this as "touting" or "soliciting" for business. Proactive selling approaches are visible in developing and poverty stricken economies. Shopkeepers go to the extent of learning foreign languages such as English, French and German so that they can make a sale.

Thirdly, it is in their nature and way of life, that shopkeepers in Turkey are more proactive and persistent. And also due to the high inflation experienced in Turkey, Shopkeepers will try to sell the buyer anything in the shop whether the buyer has a need for the good or not. This same nature is also prevalent in other Middle Eastern shopkeepers for example Iran, Jordan, Lebanon and other countries.

Shopkeepers in Europe and USA will haggle for prices but only for a short period of time. The negotiation process (haggling process) does not go on for a long time because they tire up with bargaining process between them and the buyers.

For Example, in the environs of Saint Sophia and the Blue Mosque, shopkeepers or their assistants approach you to try and sell you authentic Turkish carpets or porcelain or whatever it is they are selling. These folks are nothing if not persistent, but they are friendly and proud of their wares just the same.

Conclusion

In the essay, there was another explanation for why price haggling is allowed in some markets but not in others. The explanation was that, where there are agency problems, post-prices are more likely. Price haggling is more likely if there are no agency problems. Posted prices are more likely to be public information while bargained prices tend to be private information. Since posted prices are public information, sellers can easily undercut each other's price because each seller's price is easily observable.