The Price is Right? Product Attachment and Price-Setting in the Sale of Handicraft Products in Southern India

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Abstract

In this paper, I advance price-setting theory by documenting a case where sellers set prices that cannot be reconciled with profit maximization as a result of their attachment to their products. I draw on ethnographic fieldwork, a field experiment and survey among two groups of handicraft sellers - artisans and traders - to theorize and test the role of product attachment, or sellers’ relationship with their products, in pricing decisions. I first demonstrate that artisans involved in both making and selling handicraft products had high product attachment as indicated by their a) personal investment, b) internal quality standards and c) anthropomorphization of their products whereas traders selling the same products without making them had low product attachment. I then experimentally show that artisans, unlike traders, offered discounted prices to discerning buyers who would care for their products beyond the point of sale, even when these buyers had a higher willingness-to-pay. I further show that artisans’ discounts to discerning buyers increased when they were involved in more stages of the production process. By highlighting the role of product attachment in price-setting, this paper contributes to our understanding of one of the most central features of economic markets.

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Introduction

The sale of goods and services is the bedrock of capitalism and how sellers set prices for these goods and services is a fundamental question underlying our understanding of markets. In this paper, I focus on how sellers set prices for different buyers of the same product, a practice called price discrimination. For example, airlines charge different prices depending on how far in advance buyers book flight tickets and online book sellers charge different prices for the same products depending on buyers’ online browsing history. In these examples, neoclassical economics predicts that prices are set in line with profit maximization, where sellers vary prices according to their assessment of different buyers’ willingness-to-pay in order to extract the highest possible price and thereby maximize their profits.

However, recent studies in economic sociology suggest that sellers sometimes set prices that may not be consistent with profit maximization. These studies show that sellers offer discounted prices to buyers whom they share embedded relationships with (Uzzi, 1999; Uzzi and Lancaster, 2004; Bidwell and Fernandez-Mateo, 2010; Sorenson and Waguespack, 2006), buyers whom they want to establish a favorable reputation among (Kollock, 1994; DiMaggio and Louch, 1998; Fernandez-Mateo, 2007; Zbaracki and Bergen, 2010), and buyers who adhere to locally-held norms of morally appropriate behavior (Frank, 1996; Halpern, 1997; McGinn and Keros, 2002; Ody-Brasier and Vermeulen, 2014). However, these studies cannot rule out that the price discounts in each case while hurting short-term profits may be in line with a long-run focus on profit maximization. Favorable deals offered by sellers in embedded relationships are likely to be reciprocated in the future, there are long-term rents associated with a seller establishing an enhanced reputation, and transacting with norm-adhering buyers boosts a seller’s legitimacy and chances of survival in the long-run. As such, the prices in these studies that may seem inconsistent with profit maximization in the short-run, may indeed be consistent with long-run profit maximization.

In this paper, I study how sellers set prices among different buyers in a setting where market interactions are one-shot deals and there is no shadow of the future, ruling out long-run considerations from sellers’ pricing decisions. I find that some sellers in this setting offer buyers with a higher willingness-to-pay significant price discounts, thus price-discriminating in ways that cannot be reconciled with short- or long-run profit maximization. Why sellers would deviate from profit maximization in setting prices is a question of utmost importance given how ubiquitous price-
setting is and how central pricing decisions are to the governance of economic markets. Further, in this setting, sellers are poor with no savings or alternative sources of income making the puzzle of why they would leave money on the table in setting prices for these one-time transactions even more stark.

I argue that to understand this puzzle, we must consider sellers’ relationships with the products that they sell, or what I call *product attachment*. Building on existing research by scholars of work and employment on identification with work (Adler, 1993; Cohen, 2013), I find that sellers can identify and become attached to the products that they sell, treating their products like their own children and caring about the welfare of these products even beyond the point of sale. This is particularly pronounced when sellers are involved in producing the products that they sell and in the process, they develop love and affection for the output of their labor. I argue that when sellers have product attachment, they develop a preference to transact with discerning buyers, namely buyers who they believe will appreciate, respect and take good care of their products beyond the point of sale. I further show that product attachment can steer price-setting away from profit maximization because sellers with product attachment pay attention to more than just buyers’ willingness-to-pay in setting prices and give discounts to buyers perceived to be discerning, even when these buyers have a higher willingness-to-pay.

In this paper, I study the pricing behavior of two groups of sellers varying in how involved they are in producing the wood and lacquerware products that they sell, in an isolated handicraft cluster called Channapatna in India where each sale is treated as a one-time transaction. The paper is organized around the “full-cycle research” model (Fine and Elsbach, 2000; Kaplan, 2014), which mirrors the research process that I followed. First, I conducted eight months of ethnographic fieldwork, which revealed that one group of sellers - artisans - involved in making and selling handicraft products, had high product attachment as indicated by their a) personal investment, 2) internal quality standards and 3) anthropomorphization of their products, unlike the other group - traders - who sold the same products without making them. My qualitative fieldwork also helped me develop the key hypothesis for this study that when sellers are attached to their products, they provide discounts to discerning buyers. I then tested this hypothesis using a field experiment where trained auditors purchased the same handicraft products from a group of artisans and traders, generating detailed pricing data on over 450 sales transactions. I found that artisans gave discounts to the experimentally-manipulated discerning categories of buyers in a way that traders did not, and
that these discounts were given even when the discerning buyers had a higher willingness-to-pay. Finally, in order to move beyond comparisons between artisans and traders, I conducted a survey to explore variation in product attachment within artisans, and showed that when artisans were involved in more stages of the production process, they provided greater discounts to discerning buyers. In this way, the paper highlights how product attachment affects sellers’ price-setting behavior.

In what follows, I review the relevant literature and describe my research setting and design. I then present my ethnographic data followed by my experimental and survey results. I end by discussing the implications of this research for the study of price-setting and the study of work.

**Bringing an Understanding of Work to the Study of Price-Setting**

**Literature on Price-Setting**

Price is a key economic variable in the study of markets and firm strategy (White, 1981; Williamson, 1985; Fligstein, 1996; Dobbin and Baum, 2000; Sorenson, 2000; Adler, 2001; Sorenson, 2003; Sorenson et al., 2006). As such, significant scholarly attention has been paid to the study of pricing in commodity and service markets (Eccles and White, 1988; Baum and Haveman, 1997; Benjamin and Podolny, 1999) as well as labor markets (Fernandez-Mateo, 2009; Dencker, 2009; Bidwell, 2011; Bidwell et al., 2013; Dencker and Fang, 2014). Across these studies, price-setting has typically been viewed as an instrument for profit maximization. In some studies, economic agents are shown to set a fixed profit-maximizing price, while in others, they are shown to vary the prices that they charge to different buyers for the same product (see Pager and Shepherd (2008) for examples). This practice of varying prices, called price discrimination, is also consistent with profit maximization: prices are chosen in accordance with buyers’ ability and willingness to pay, in order to extract the maximum possible revenue from each sale and thereby maximize profits.

A few studies in economic sociology have documented cases where price discrimination deviates from short-run profit maximization in the presence of embedded relationships, reputational concerns and local norms between buyers and sellers. However these studies, as described below, may in fact be consistent with profit maximization in the long-run. For example, sellers have been shown to deviate from willingness-to-pay in setting prices when they have pre-existing, strong ties
with buyers. Uzzi and Lancaster (2004) show that law firms offer lower prices for legal services to long-term clients, while Uzzi (1999) similarly demonstrates that banks give lower interest rates on loans to small businesses when the commercial transactions are embedded in social relationships. Such embedded relationships have also been shown to affect prices between distributors and film production companies in Hollywood (Sorenson and Waguespack, 2006) as well as between contract professionals and a staffing firm in the IT industry (Bidwell and Fernandez-Mateo, 2010). While rewarding embedded relationships with favorable prices is inconsistent with profit maximization in the short run, it may indeed increase long-term profits because embedded relationships are characterized by trust and reciprocal obligations (Coleman, 1988) where buyers are likely to return favorable deals in the future in a way that adds economic value to sellers.

Similarly, economic agents have been shown to set prices that are inconsistent with profit maximization when they are trying to establish a favorable reputation among new clients. For example, Zbaracki and Bergen (2010) find that sales representatives of a manufacturing firm give lower prices to distributors in new geographic areas where the reputation of the firm is yet to be established. Similarly, Fernandez-Mateo (2007) argues that temporary staffing agencies might not price based on reservation wages of their contractors when they are trying to build their reputation as a good employer. The practice of offering such concessions in price to select, lucrative buyers is even more pronounced when there is uncertainty about the quality of the product being sold (Kollock, 1994; DiMaggio and Louch, 1998). However, this pricing behavior that is inconsistent with immediate profit maximization may increase profits in the future because there are long-term economic rents to be gained from an enhanced reputation (Merton, 1968). In particular, sellers who establish a reputation for selling high-quality goods can demand a premium for their goods and buyers, too, are more likely to return to these sellers for repeat transactions.

Finally, sellers have been shown to set prices that deviate from willingness-to-pay when buyers act in accordance with locally-held norms of what constitutes morally appropriate behavior in a given setting. For example, Ody-Brasier and Vermeulen (2014) show that Champagne grape growers charge lower prices to wine houses that adhere to the local norms of what a buyer should look like and do, such as be located in a traditional Champagne village and not supply to supermarket brands. Similarly, expert witnesses hired to testify in court charge lower fees to clients who adhere to local norms of moral “correctness” by supporting public interest campaigns associated with anti-smoking campaigns (Frank, 1996). Such discounts to norm-adhering buyers, while at
odds with short-run profit maximization, may be consistent with increasing profits in the long-run because transacting with norm-adhering buyers may enhance the legitimacy and long-term survival prospects of sellers (Hannan and Freeman, 1984). Therefore, these studies of price discrimination cannot rule out that the price discounts offered to favored buyers may in fact be consistent with a focus on profit maximization in the long-run.

In this paper, I present a case where sellers offered buyers with a higher willingness-to-pay significant discounts in a setting where sellers had one-time interactions with buyers, thus ruling out compromises in short-term revenue for long-run profit maximization. Over 90% of the sellers in the study reported never selling twice to the same customer in the survey that I conducted. Given the centrality of pricing decisions in economic markets, it is crucial to understand this case of price discrimination that seems to be inconsistent with short- and long-run profit maximization. A unique feature of this setting is that the sellers who offered discounts also produced the products that they sold - therefore, I turn to the scholarship on work and employment in order to investigate why sellers might sometimes sacrifice profits in setting prices.

**Literature on Work**

Scholars have demonstrated that workers in a variety of jobs and contexts can experience identification with their work, where work becomes meaningful and self-fulfilling (Van Maanen, 1975; Adler, 1993; Adler and Borys, 1996; Fine, 1996; Barley and Kunda, 2001; Aguilera and Dencker, 2005). Such identification is thought to develop in concert with doing one’s work, ultimately making work pleasurable and intrinsically valuable (Bellah et al., 1985; Rosso et al., 2010). Identification with work is associated with a deep commitment to the work process (Bunderson and Thompson, 2009), enjoyment from work tasks (Nelsen and Barley, 1997) and attachment to the work (Baron et al., 1996). Recent scholarship has argued that incumbents can mold any job to make it meaningful (Berg et al., 2010; Cohen, 2013), whether in the context of new firms (Dencker et al., 2009) and voluntary, contract jobs where workers have more autonomy and control over their work (Bidwell and Briscoe, 2009) or among experienced workers in established organizations performing their jobs with skill and expertise (Briscoe, 2006, 2007).

Creative producers, in particular, have always been associated with high identification with work (Norton et al., 2012; Fine, 1996, 1992). Producing a good from start to finish offers non-routine
endeavors, avenues for individual expression and control over the work process, all features which breed attachment to the work (Becker, 1982). Creative producers pay attention to the originality of their output as well as the technical quality demonstrated (Caves, 2000). For example, Fine (1992) shows that cooks in high-end restaurants identify deeply with their work and pay attention to the “aesthetics” of their creative work such as style and appearance, while Faulkner (1971) highlights studio musicians’ self-set standards of excellence that require them to “play their [technical] best all the time.”

Recent studies from diverse fields provide hints that creative producers even make monetary sacrifices for the sake of their work (Bunderson and Thompson, 2009; Nelsen and Barley, 1997). For example, Stern (2004) documents that scientists are sometimes so attached to the process of developing original research that they choose to work for lower-paying firms that will allow them to publish and publicize their research among a wider audience. Similarly, Scott Morton and Podolny (2002) document that hobbyist wine entrepreneurs in California care so deeply that their production process be authentic that they pay more to hire winemakers with a French accent, without any expectation of increased quality of their wine. These studies help me theorize about why sellers in my study might leave money on the table in setting prices.

In this paper, I extend the scholarship on identification with work by arguing that just like economic actors can be attached to the work process, they can similarly be attached to the output of their labor, what I call “product attachment,” and when sellers have product attachment, they are willing to make monetary sacrifices for the sake of their products. I demonstrate this in the context of price-setting where I show that sellers involved in making the products that they sell have high product attachment and price in ways that deviate from profit maximization by offering discounts to discerning buyers who they believe will care for their products beyond the point of sale. Below, I describe the “full-cycle research” model (Fine and Elsbach, 2000), which mirrors the research process that I followed to conduct this research.

**Full-Cycle Research**

The full cycle research model combines multiple methodologies in a cyclical manner in order to enhance the power, generality and conceptual underpinnings of the phenomenon being studied (Fine and Elsbach, 2000; Cialdini, 1980). It begins with (a) ethnographic observation of social
phenomena to identify naturally occurring puzzles and theorize about the causes of the puzzle, followed by (b) experimental tests of the theory, and finally (c) further field data collection to enhance understanding of the experimental results (Chatman and Flynn, 2005). The initial qualitative data accurately and richly describe real-world issues that are worth studying and generate theory close to the “field” or immediate experiences of informants, while the experimental data identify simple, generalizable causal relationships (Sutton, 1997; Edmondson and McManus, 2007; Kaplan, 2014). The subsequent field data probe deeper into the findings from the experimentation and investigate mechanisms underlying the causal relationships (Ashford et al., 2007; Grant et al., 2014). This cyclical use of diverse methods, both inductive and deductive, in a single research program allows each method to complement the other and offers richer insights than using any single method (Glynn and Raffaelli, 2010; Lee and Battilana, 2014).

Mirroring this process, I first conducted an eight month ethnography by comparing two groups of sellers selling the same products where only one group was involved in making the products that they sold, to distinguish the sellers’ varying levels of product attachment and generate hypotheses about how sellers’ product attachment might impact their pricing strategies. I then experimentally tested the hypotheses using a field experiment where trained auditors purchased the same products from both the seller groups. I finally conducted a survey to move beyond the seller type as a proxy for product attachment, by measuring variation in product attachment within one group of sellers to test its effect on price-setting.

**Setting**

The setting for my study was the wood and lacquerware craft cluster of Channapatna in southern India. Channapatna has a three-hundred year long tradition of “organic” wood and lacquerware handicraft production using naturally-occurring wood and dyes made from vegetable color. About 10% of Channapatna’s 60,000 inhabitants are sellers of handicraft products such as wooden toys and jewelry (Aziz, 1979). These sellers are broadly organized into two categories: one group of sellers, artisans, produce the exquisite wood and lacquerware products themselves and sell these handmade products locally from their worksheds. The other group of sellers, traders, sell the same products locally as well as in wider markets through retail establishments but are not involved in the production process.
Channapatna was an ideal setting to study the role of product attachment in price-setting for several reasons. First, as mentioned above, this setting houses two groups of sellers selling the same products where only one group makes the products. Second, Channapatna is a remote market located on a highway between two large cities (Bangalore and Mysore) and receives an eclectic mix of tourist buyers, who purchase products from both traders and artisans. Third, the sales transactions are typical of those in the informal economy where prices vary and are set by bargaining. Fourth, the setting rules out long-run considerations from the price-setting process because relationships between buyers and sellers in Channapatna are one-time, products are not branded or signed, sellers operate independently and there is no audience for any given sale.

A final advantage of Channapatna as a setting is that artisans and traders in this town are similar along several dimensions. Members of both occupations are typically male, married, literate, usually in their mid-forties, belong to what are designated in India as backward castes,\(^1\) have families of about five or six people, have similar levels of market exposure and have been practicing their occupation for about twenty years each, having inherited it from their family. However, traders are slightly more educated as compared to artisans, are more likely to be Hindu rather than Muslim and make about $160/month as compared to artisans who make $70/month.\(^2\) These data are summarized in Table 1.

\section*{Ethnographic Methods}

In the next section, I describe the ethnographic methods that I used to commence my research process, through which I observed artisans’ and traders’ relationships with their products and their respective pricing strategies.

\footnotesize{\begin{itemize}
\item \textsuperscript{1}includes Scheduled Castes (SC), Scheduled Tribes (ST) and Other Backward Castes (OBC) as defined by the Indian Constitution.
\item \textsuperscript{2}While these gaps might be a cause for concern, Figures A.7, A.8 and A.9 establish that the final results are robust to these differences.
\end{itemize}}

\begin{table}[h]
\centering
\caption{Comparison of artisans and traders in Channapatna.}
\begin{tabular}{|l|l|}
\hline
Characteristics & Artisans & Traders \\
\hline
Gender & Male & Male \\
\hline
Marital status & Married & Married \\
\hline
Education & Literate & More educated \\
\hline
Age & Mid-forties & Mid-forties \\
\hline
Occupation & Artisan & Traders \\
\hline
Market exposure & Similar & Similar \\
\hline
Inheritance & Yes & Yes \\
\hline
Income & $70/month & $160/month \\
\hline
Religion & Hindu & More Hindu \\
\hline
\end{tabular}
\caption*{Insert Table 1 about here}
\end{table}
in the town. Both artisans and traders welcomed me into their homes, making access straightforward. Although the locals did not understand what research or academia meant, my interest in studying how handicrafts were made and sold and how work life was organized in Channapatna led them to trust me and, as a single woman of Indian origin in a predominantly male occupation, regard me as “harmless.”

During the day, I observed artisans and traders at work, paying special attention to their work practices and routines. For example, I observed artisans’ creative decision-making process including how they chose colors and patterns and traders’ inventory management processes. In addition, in the evenings and over meals, I talked with artisans and traders about the day’s work and events (Spradley, 1979). Apart from my ability to communicate in Hindi, I also developed a working understanding of Kannada (the state language) that allowed me to speak with a diverse set of local people over time. Artisans and traders were keen for their stories to be told and they seemed to open up to me, even more than to their colleagues or families because, unlike many of their family members, I asked about their work and took interest in their lives (Simmel, 1950). I decided to carry a visible notebook from the beginning and let artisans and traders see me jotting notes at all times. At the end of each day, I made sure that I had documented all salient observations.

I structured my time so that I was in the field for three days a week and spent the rest of my time in Bangalore typing up field notes, writing memos and making sense of the emerging data. The time away from the field helped me identify puzzling observations that would inform the following week of my fieldwork. In this way, fieldwork included intensive participant observation of the artisans’ and traders’ day-to-day work, including observation of over sixty artisanal worksheds and visits to more than thirty trading establishments in the area.

**Interviews.** In addition to participant observation, I conducted twenty-two formal interviews and fifty informal interviews with artisans and traders whom I had met in the course of fieldwork (Barley and Kunda, 2001). My interview sample captured diversity in religion and size of establishment (Trost, 1986). I used these interviews to probe deeper into how artisans and traders understood and made sense of their work lives (Spradley and Baker, 1980). The semi-structured interviews were conducted in Hindi and lasted an average of one hour. Over the course of the interview I covered many topics ranging from how the sellers had entered their occupation, how they experienced their work, what they liked and disliked about their products, their daily routines and practices, the prob-
lems that they experienced and views about their family, town, and occupation. Each interview was digitally recorded and after every interview, I recorded my impressions of the interviewee, his house, workplace and family members.

**Analysis.** I inductively analyzed the open-ended data, comprising over 500 pages of fieldnotes and interview transcripts, using Atlas.ti. My inductive analysis (Glaser and Strauss, 1967) consisted of multiple readings of field notes and interview transcripts and extensive memo writing to decipher patterns in how artisans and traders talked about their products and understood their work. In my coding of the data, I associated passages of text with one or more codes, contrasting artisans and traders along many dimensions such as their respective appreciation for artistic quality and creativity, attitude towards money and concern for their reputation. In this way, the theorizing and analysis of the data proceeded iteratively.

Through this process, I uncovered that artisans and traders had very different relationships with the products that they sold, what I call “product attachment.” In the following section, I use qualitative data to develop the concept of product attachment and articulate hypotheses about the impact of product attachment on price-setting, which I then test using a field experiment.

**Ethnographic Findings: Product Attachment among Artisans and Traders**

You get that satisfaction when you see your product transform from the raw wood to the final shape, like them taking the first footsteps, then getting shapes, then making their initial forays into the market, and finally, you have to sell them. It’s like holding their hands through this whole process and then giving them away. - *Artisan in Channapatna*

This quote suggests that artisans had a unique relationship with the handicraft products that they sold. Artisans were involved in making these products, where they individually designed and produced each piece on a motorized lathe to give it the desired shape and then coated the piece with vegetable-dyed lacquer and shaded it using a locally available leaf so that no two pieces looked

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3Interview protocols available upon request.
the same (see Figure 1). By participating in this painstaking production process that combined traditional craft knowledge and novel creative expression, I observed that artisans developed a special relationship with each piece that they made and cared deeply about the piece throughout its life cycle. In this paper, I label such a relationship that sellers can have with their products, “product attachment.” In particular, I observed that artisans in Channapatna displayed high levels of product attachment whereas traders not involved in making the products that they sold displayed limited product attachment. Traders did not experience the transformation of each product from its raw, crude form to its final, refined state and as such, did not connect as deeply with the products that they sold.

**Indicators of Product Attachment**

**Personal Investment in Products.** The first indicator of product attachment that I uncovered was sellers’ level of personal investment in the products that they sold, often above and beyond what was required for the safekeeping of the products. Artisans invested significant emotion and time into their handicraft products, whereas traders who sold the same products without making them, displayed less personal investment in their products.

In interviews, artisans often expressed awe at the transformation of their raw wood into finished products and described understanding their work of creating handicraft products as being sacred and divine. As one artisan said:

People carry that kind of devoted attitude towards the production process. People treat
the creation of their products as god’s work. As such, artisans invested emotionally and spiritually in their products by incorporating various religious customs into their production routines. For example, I observed that artisans often worked without footwear despite the workplace being filled with sharp wood chips and sawdust, following Indian custom deeming it inappropriate to wear footwear in a place of worship. When asked why they left their footwear outside the workshed despite the risk of having cut and bruised feet, the idea seemed nonsensical to one artisan who said:

Do you wear chappals[footwear] inside the house of god?

Similarly, artisans in Channapatna deified their machines, tools and products by offering flowers, lighting incense sticks and cleaning them multiple times a day. These practices reflected artisans’ deep connection with their products. As one artisan said:

I see people cleaning... in the morning and evening, twice a day just like we pray twice a day.

Artisans also invested significant time in the storage of their products. For example, I observed that artisans shuttled products from their worksheds to their homes multiple times a day, revealing a preference to store their products in the safety of their homes rather than in the chaos of their worksheds. This practice seemed to be quite common, even though I also observed that stacking and storing finished items in bulk, like the traders did, was quite sufficient to keep the bangles safe. As one artisan said:

I put my heart and soul into it [the product]...I want it safe.

While artisans invested significant time and emotion into their products and even sacrificed their personal safety as a result of their attachment to their products, traders displayed limited personal investment in their products. Traders, too, described cleaning and safeguarding their products, but they emphasized exerting the minimum effort required to ensure that their products would be sold. For example, when I asked a trader how often he cleaned his products, he said, “when they are dirty, I clean them.” Similarly, I observed that traders stored large amounts of inventory in boxes on the floor of their shops, despite the floors typically being dusty. One trader, revealing his low product attachment, said:

Today I sell one thing [product], tomorrow another, its all the same...there’s no point in keeping the products too clean.
**Internal Quality Standards for Products.** The second indicator of product attachment that I uncovered was sellers’ internal quality standards for the products that they sold. Artisans aspired to make their products “as good as they could be,” going to great lengths to achieve this goal. Traders, on the other hand, did not describe holding themselves to such stringent standards. I observed that artisans’ work decisions were driven by an internal barometer for what was “right” when it came to the practice of their art. For example, one artisan said:

> Every piece I make, I need to know that I’ve made well. If I want to make it even better, that means its not there yet and I do more work on it.

I observed that artisans also sacrificed safe working conditions and put their personal health at stake when faced with decisions that interfered with the perceived purity of their art. For example, I noticed that artisans did not use protective eyewear despite splinters and wood chips commonly flying from their lathes and getting lodged in their eyes. I found that this was not a question of cost, access or ignorance⁴ - the matter seemed to be one of trading artistry for safety. Artisans explained that the glasses impeded their ability to pay close attention to minute details in their designs. Artisans’ commitment to their products’ designs, at the expense of their personal safety, indicated their deep love for their products. As one artisan I interviewed articulated:

> When I work on the lathe, if I put on the shades [eye glasses], I am unable to see the wood as carefully [as I want to]. So no one wears them.

Traders, on the other hand, seemed to lack similar internal quality standards for the products that they sold. In interviews, traders described selecting products to stock in their shops based solely on “whether the products would be purchased by customers.” In line with this, I observed that more than half of the traders in Channapatna had begun importing large quantities of Chinese plastic, machine-made replicas of the local handmade products given rising consumer demand for these cheaper products. Traders seemed to see the local, handmade products as being substitutable with changing market conditions, indicating their low attachment to Channapatna’s products. Further, I observed that traders were willing to compromise on the quality of their products when raw materials became more expensive, a practice that artisans with high product attachment would never endorse. A trader I spoke to explained this practice:

⁴More than 80% of the workshops I visited had stacks of safety eyeglasses (distributed for free by the government) that lay unused.
Well the material costs are increasing, what do you do? The cost of production doesn’t get adjusted [on its own], so one solution is to lower the quality of the products, buy cheaper raw materials..you just adjust and keep going . . . this is business.

**Anthropomorphization of Products.** The final indicator of product attachment that I uncovered was sellers’ treatment of their products, which ranged from viewing them as animate entities with lives and personalities of their own on one end, to seeing them as cold, inanimate objects. I found that artisans humanized their products and treated them like their children while traders did not ascribe such anthropomorphic qualities to their products.

Artisans treated the products that they made like their own babies, part of their embodied selves, bestowing these products with love and showering them with attention. In interviews, artisans expressed deep affection towards their products that mirrored a parent’s love for his or her child. As one artisan said:

> When I make a piece, I get attached to it. I [develop] affection for it..it’s like bringing up a child when you are an artisan.

Further, instead of referring to their products using the pronoun “it,” artisans sometimes anthropomorphized the products by using the pronoun “him” or “her.” As another artisan said:

> No two bangles look exactly the same..I can easily identify her [my red bangle] among a sea of seemingly similar red bangles.

In fact, I observed that artisans were sometimes so emotionally attached to their “babies” that they wouldn’t sell them at all. This was most apparent to me when I observed artisans creating innovative products or introducing new designs. In such cases, artisans especially treasured their products and kept them as mementos. This seemed to be a widespread practice, as evidenced by the fact that on my first visit to most artisans’ home, they invariably fetched a handful (or more) of unique self-made artifacts from a closed cupboard in their bedroom for my viewing. During one such interaction, an artisan said:

> These are my babies..we like to do our own pieces, create them with new designs, new colors and keep samples for our memory..we don’t want to become operators in a factory.

Traders, on the other hand, did not seem to ascribe such human-like qualities to the products they
sold. I observed that traders did not display similar attachment or affection for their products, treating them as inanimate objects. For example, traders talked about their products as “stock” or “inventory” that they needed to clear. In interviews, traders often coldly described the process of getting rid of old stock by “repackaging the old designs as new designs [and selling them] at a different price.” Similarly, I observed that traders were unaffected when they found products in their shops cracked or broken. Instead, they described focusing on how to sell these broken products. As one trader said:

Everyone can sell a good product. But us traders, we take pride in the ability to sell even a broken product.

In sum, the previous three subsections demonstrated that artisans and traders in Channapatna varied in how much they personally invested in their products, whether they had internal quality standards for their products and how they treated their products. The data showed that even though artisans and traders sold the same products, they had very different relationships with their products. Artisans were willing to make personal health and safety sacrifices for their products, such as getting their feet bruised or getting wood splinters in their eyes, due to their attachment to the products whereas traders displayed no such attachment to their products, treating their products as a means to an end.

**Product Attachment and Price-Setting**

My field observations additionally indicated that artisans and traders, with their varying levels of product attachment, set prices very differently. In particular, I noticed that artisans sometimes charged the highest prices to Indian tourists from the region (people who spoke the same language and were likely to be from a similar socio-economic background as the artisans themselves), while they offered significant discounts to certain groups of buyers such as foreigners who had a discernibly higher willingness-to-pay. I did not observe this pattern of price discrimination among traders, who appeared to price in line with traditional economic theory, by charging Indian tourists from the region lower prices and seemingly wealthier buyers higher prices.

In asking artisans and traders about how they set prices, I discovered that artisans cared about selling to buyers who would provide a good home for their products, appreciate and take care of their products beyond the point of sale, to such an extent that artisans were willing to give
discounted prices in order to transact with these discerning buyers. Artisans were so attached to their products that they seemed to care not only about the artistic quality of their products but also about characteristics of the buyer purchasing the product. Artisans valued finding the “right buyer” for their product, one that would take care of the product, appreciate its value, and display it in aesthetically pleasing ways, more than simply finding a buyer who would pay a hefty price. One artisan, describing his preferences in buyers, said:

I want my product to be displayed well in the customer’s home..I don’t want it[the product] to lie on a dusty shelf somewhere or in a closed cupboard...some buyers will put my product on a center table, that’s what I like.

In line with this, I noticed that I often received lower prices than other tourists when shopping for jewelry in artisans’ shops on days when I also happened to wear handicraft jewelry - artisans would ask about the origin of my jewelry and seemed to interpret my prior history with handicraft products as a signal that I would take care of their craft jewelry. In contrast, when I shopped at traders’ shops on the same days, I was treated no differently than other buyers and charged similar prices, suggesting that traders with low product attachment paid less attention to such “level of discernment” cues and cared less about who they sold to as long as they made a profit. As one trader said, “I like buyers who come, buy and leave.” These observations led me to the first hypothesis about product attachment and price-setting that I subsequently tested using experimental methods:

**Hypothesis 1**: Sellers with high product attachment will provide discounts to discerning buyers, whereas sellers with low product attachment will not provide discounts to discerning buyers.

Additionally, I learned that international tourists, despite their higher willingness to pay, were also seen by artisans as having a keen interest in Indian handicrafts and were offered discounts, since these buyers presented the opportunity for artisans to display their products in distant locations around the world. These discounts to international buyers could serve as an even stronger indicator that sellers with product attachment price in ways that compromise profits because while artisans make monetary sacrifices in offering discounts to discerning buyers, these fiduciary sacrifices are even larger when the discerning buyers also have a higher willingness-to-pay. One artisan explained why he liked selling to foreign customers:
Our necklaces which are brightly colored look good with a white shirt and usually foreigners know to wear this combination; then the necklace shines.

In contrast, I observed that traders with low product attachment charged international tourists significantly higher prices. Traders seemed to focus on buyers’ willingness-to-pay in setting prices, in line with traditional economic theory where the focus is on maximizing economic gain from the selling process. As one trader said:

   Everything is about money only, no? Why else would we work? People steal also, for money only. Without money, we have nothing. Even the cocks wouldn’t wake up in the morning without money....so of course I am going to sell for the highest price.

Thus, artisans’ and traders’ prices to international tourists diverged diametrically where artisans seemed to offer these buyers discounts whereas traders charged them higher prices. These observations led me to the second hypothesis about product attachment and price-setting:

   **Hypothesis 2**: Sellers with high product attachment will provide discounts to discerning buyers even when these buyers display a higher willingness-to-pay, whereas sellers with low product attachment will charge these buyers higher prices in accordance with their higher willingness-to-pay.

In the next section, I describe the methods that I used to test these hypotheses. In particular, I designed a field experiment to causally establish whether sellers’ level of product attachment affects their pricing strategies. By observing artisans’ and traders’ pattern of pricing across experimentally manipulated buyer categories, I am able to test whether sellers with different levels of product attachment price differently. The field experiment controlled for all differences in these transactions except for the buyers’ “look,” which varied their portrayed level of discernment towards craft products as well as their implied willingness-to-pay, and then measured the prices charged by artisans and traders to these different buyers.

**Field Experimental Methods**

An audit study design, which has previously been used in the study of discrimination in sociology (Pager, 2007; Pager and Quillian, 2005; Correll et al., 2007), was adapted to study price discrimination in Channapatna. The experiment proceeded as follows: six auditors were trained to be buyers
of a standardized craft product, a pair of half-inch bangles, in Channapatna. Each auditor visited every artisan and trader in the seller sample in a randomly assigned order to make these purchases. The auditors negotiated for a price, according to a prescribed bargaining script, and recorded price and other information on a form after each sale. The experiment, which was conducted over a two week period in the middle of May 2012, coincided with a large cricket tournament in the area. This meant that there were more tourists than usual visiting Channapatna and the auditors in the experiment did not stand out. This section describes the design and implementation of the experiment in detail.

**Product and Sellers.** The “Channapatna Bangle,” of half-inch width, was the standardized craft product chosen for the purpose of the experiment. This bangle is ubiquitous and widely produced and sold in Channapatna owing to its current popularity in Indian fashion. In addition, this bangle is standardized in its cost of production and yet, offers an avenue for creative expression and craftsmanship through differential color, pattern, and design. Since these bangles are usually worn in pairs, each auditor also purchased a pair of Channapatna Bangles of half inch width.

For this experiment, a sample of 77 sellers,\(^5\) 52 artisans and 25 traders, was created from Channapatna’s population of over 5,000 sellers. See Figure 2 for a map showing the geographic location of the chosen artisans and traders, collected through a GPS device. In choosing the sellers for the experiment, only those artisans and traders who had ample experience making and selling half-inch bangles, and who had sufficient stock of this product were considered. Further restrictions were imposed on the sample to select artisans and traders who were at least 500 meters away from other sellers in the sample. The final sample consisted of sellers across 8 localities of Channapatna. The sellers in the sample were divided into 20 groups, each consisting of 3 to 4 artisans or traders, based on geographical proximity. This aided in devising a schedule for the experiment.

**Auditors and Treatment.** Six auditors were hired for this experiment to purchase a pair of Channapatna bangles from the 77 sellers. The auditors were all women in their early twenties with 12

\(^5\)The sellers in my sample were no different from other sellers in Channapatna, based on ethnographic observation and interviews.
to 14 years of education. None of them had been to Channapatna before, or had prior familiarity with the craft work there and in this way, they were similar to the average tourists shopping in Channapatna.

The six auditors were similar except for their “look,” or material presentation, which constituted the key aspect of the treatment for the experiment. In order to test the hypotheses delineated in the previous section, two aspects of the buyers’ “look” were varied - level of discernment portrayed and willingness-to-pay indicated. Accordingly, the auditors were assigned to three experimental categories - Indian-Baseline, Indian-Craft and International - that varied along these two dimensions, as indicated in Figure 3. The design of these categories was inspired by my field observations.

INSERT FIGURE 3 ABOUT HERE

The first category, called “Indian-Baseline,” comprised of two Indian auditors who signaled low willingness-to-pay because they looked native to the region - they came from small towns about 450 kilometers away from Channapatna in the state of Karnataka - and spoke the same language, Kannada, as the locals in Channapatna. The two “Indian-Baseline” auditors also signaled a low level of discernment by dressing like they normally would, with plastic jewelry, salwar-kameezes made of polyester material and synthetic handbags. This category served as a control group for the experiment against which the other two experimental categories were compared in each of the hypotheses respectively.

In order to test Hypothesis 1 that sellers with high product attachment will offer discounts to discerning buyers whereas sellers with low product attachment will not, the second category called “Indian-Craft,” had two Indian auditors who also signaled low willingness-to-pay like the Indian-Baseline auditors but signaled a high level of discernment, unlike the Indian-Baseline auditors. These auditors were also native to the region, coming from small Kannada-speaking towns about 450 kilometers away from Channapatna in the state of Karnataka, but they wore several handmade products and thereby, displayed an aesthetic discernment for handicraft products in their fashion choices instead of the more common synthetic alternatives. The two auditors assigned to this category wore several craft items including handmade terracotta earrings, a handcrafted metal necklace, salwar-kameezes made from handwoven cotton and they each carried handbags woven

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6Indian attire consisting of a pair of loose trousers, a long tunic and a scarf
7The four Indian auditors were randomly assigned to the Indian-Craft and Indian-Baseline roles.
out of natural fiber. These products were specifically from craft clusters in other parts of India, not from Channapatna, and were meant to indicate appreciation for craft work rather than familiarity with Channapatna’s products. By comparing artisans’ and traders’ prices offered to the Indian-Craft auditors vis-a-vis the Indian-Baseline auditors, I tested whether artisans with high product attachment gave discounts to discerning buyers in a way that traders with low product attachment did not.

In order to test Hypothesis 2 that sellers with high product attachment will give discounts to discerning buyers even when these buyers portray a higher willingness-to-pay whereas sellers with low product attachment will charge these buyers higher prices, the third category, called “International,” had two foreign auditors. These auditors signaled high willingness-to-pay through their discernibly non-Indian, and therefore wealthier look with lighter skin color, distinct features and Western clothing consisting of dresses, skirts, pants and shorts. The “International” auditors also signaled keen discernment for handicraft products, given that they had traveled a long way from their native countries of Thailand and Mauritius and had chosen to shop for handmade products in the remote town of Channapatna even though they spoke neither Kannada nor Hindi, and therefore conducted their transactions in English. Interviews with artisans indicated that in fact, they always perceived foreigners to be discerning, where artisans described international tourists as “appreciative,” “having a keen eye” and “collectors of beautiful items.” Thus, by comparing artisans’ and traders’ prices offered to International buyers vis-a-vis the Indian-Baseline auditors, I tested whether artisans offered discerning buyers with a higher willingness-to-pay discounts in price while traders charged these buyers higher prices.

Note that there is no experimental category portraying low discernment and a high willingness-to-pay in Figure 3. Given that artisans perceived all foreigners as being discerning irrespective of how they looked or dressed, it was not possible to construct such a category while ensuring that the experiment was realistic and representative of buyer categories that artisans and traders regularly encountered. Further, as explained above, the three categories - Indian-Baseline, Indian-Craft and International - were sufficient to test Hypotheses 1 and 2.

**Training.** Prior to implementing the experiment, the auditors spent three days in training, consisting of classroom presentations and discussion, practical observation of the area, followed by a pilot exercise. The first part of the training involved introducing the auditors to the setup of the
experiment without revealing the research questions of interest. This included educating the auditors about the wood and lacquerware products of Channapatna and specifically, the product that they would purchase in the experiment— a pair of bangles of half inch width. This would ensure that the auditors could easily identify the Channapatna bangle at the time of sale. Auditors were instructed to transact with the trader or artisan himself, not a relative or wife, and similarly, not to purchase from sellers not listed in the sample. Subsequently, the auditors were put through a range of role-playing exercises to practice acting like a buyer and to achieve consistency in their acting. This portion of the training involved memorizing a script describing what the auditor was doing in Channapatna, namely making a stop en route to the tourist city of Mysore, learning to deny any prior exposure to the wood and lacquer craft and learning the bargaining routine to haggle for the products. The final element of the classroom training entailed practicing how to fill out a “Transaction Form”, a custom form designed to capture prices and other details of the transaction, after each purchase.

The classroom education was followed by field training in Channapatna. A mini-van was rented to drive through Channapatna and build familiarity with the area. Auditors were given detailed maps marking the locations of every artisan and trader in the sample and were shown the different localities of the town so that they could find their way alone during the actual experiment. Finally, a pilot experiment was conducted in a nearby town called Yarabnagar that makes carved wooden products. Here, auditors visited a small sample of sellers to rehearse their script, make purchases in accordance with the bargaining protocol and practice filling out the transaction form after each sale.

**Randomization.** The schedule for the experiment, governing the transactions that an auditor would conduct on a given day, was created using a computerized randomization algorithm. Each day of the experiment was divided into two time slots, a morning slot and an evening slot. As established, the actors for the experiment comprised 6 auditors and 20 seller groups, each consisting of 3 to 4 sellers each. The goal of the randomization code was to assign one auditor to one seller group in a given time slot such that: 1) each auditor visits a given seller group only once, 2) two auditors do not visit the same seller group in the same time-slot, 3) sellers do not receive auditor
visits on consecutive days and 4) a seller does not receive more than 3 auditor visits in a week.\textsuperscript{8} Imposing these constraints on the randomization code mitigated concerns of “demand effects” or stockouts\textsuperscript{9} and ensured that sellers in the sample were not bombarded by auditors.

**Bargaining.** The bargaining routine, modeled on typical informal market behavior in India (Iyer and Schoar, 2013), was standardized across all transactions conducted in the experiment. The transactions proceeded as follows. On reaching an assigned seller, the auditor would leisurely survey the seller’s products before choosing a pair of half-inch bangles for purchase. The auditor would then get the seller’s attention and ask the price of the bangles. Upon hearing the seller’s initial price, in the first round of bargaining, the auditor would offer half of this quoted price. If the seller did not accept this offer, he would suggest a second price to which the auditor would raise her initial price by Rs.2 in this second round of bargaining. If the seller did not accept this offer as well, the interaction would repeat with the seller offering yet another price and the auditor raising her price by Rs.2 again in the third round of bargaining. The bargaining would cease at this point and the auditor would pay the final price demanded by the seller.

**Experimental Findings: Artisans’ and Traders’ Varying Discounts to Discerning Buyers**

In total, the experiment comprised 455 audit visits to 52 artisans and 25 traders conducted by 6 auditors, where each auditor visited every seller in the sample. Table 2 shows the distribution of sales transactions by each seller and buyer category. The table reports that each of the three auditor categories conducted between 100 and 103 transactions with artisans and 50 transactions with traders over the course of the experiment, thus making for a fairly balanced overall distribution in exposure to the experimental treatment, namely the 3 “looks.”\textsuperscript{10} Data from the experiment also provide evidence that the ordering of auditor visits to any seller was random, as planned.

\textsuperscript{8}Survey data indicate that sellers retail 70 bangles per week on average and therefore, the 3 auditor purchases per week of the experiment were unlikely to be noticed by the sellers to affect their behavior.

\textsuperscript{9}A situation where the sellers price differently because of depleting stock.

\textsuperscript{10}While all 150 transactions with traders were conducted as planned, there were 7 planned transactions with artisans that could not be completed due to unavailability of the artisans in question. However, these incomplete transactions were also distributed evenly across the 3 auditor categories.
For example, a seller had a roughly 33% chance of receiving an International, a 31% chance of receiving an Indian-Baseline and a 35% chance of receiving an Indian-Craft auditor for their first transaction. In unreported analyses, I also verified that the mean prices offered by sellers on any given day of the experiment displayed no discernible trend over time. To be cautious however, all reported regressions include date fixed effects allowing me to control for any possible time trends in the results.

**Randomization Checks.** To demonstrate that randomization was conducted correctly in the experiment, Table 3 displays an OLS regression of the auditor categories on 3 baseline transaction-level characteristics that could have an impact on price. We would not expect any significant heterogeneity across auditor categories in these baseline measurements if the randomization was done correctly, since treatment assignment was random and orthogonal to these baseline characteristics. The first characteristic that the auditors took note of was whether there was electricity at the time of sale. This is relevant because Channapatna faces unpredictable power outages of 3 to 4 hours a day. Second, the auditors estimated the remaining stock of half inch bangles a seller had, after they had made their purchase; this stock varied widely based on the seller’s day-to-day business. And third, the auditors indicated whether the seller’s spouse was present while the transaction was being conducted; the spouse was typically present when there were other errands to complete such as cleaning or arranging the items on display. The table reports that electricity was available in about 58% of the 455 transactions, that a seller typically had between 12 and 17 pieces of half-inch bangles left and the seller’s spouse was present during 22% of the transactions. However, as predicted, these baseline transaction-level characteristics did not vary significantly across the auditor categories, providing evidence that randomization was implemented according to the plan.

**Prices.** This section explores the pattern in initial prices offered by artisans and traders to the auditors displaying different looks. Initial price, the price first quoted by the seller, is a particularly
useful measure because, even though the bargaining protocol was standardized, initial prices reflect the sellers’ appraisal of each buyer role and should be independent of the way in which bargaining proceeded.\footnote{The focus of the analyses will mostly be on initial prices, but the results are robust to using final prices also. Final price is the price at which the product is eventually purchased after auditors engage in three rounds of standardized bargaining. On average, the buyers receive about a 15\% price reduction after bargaining with artisans and a 10\% price reduction from traders.}

Figure 4 illustrates the distribution of initial prices (in Indian Rupees, where approximately Rs.50=\$1) that auditors received when transacting with artisans and traders. The graph to the left shows that the mean initial price offered by artisans was Rs.27.91, but that there was significant variation in this price: it ranged from Rs.0 to Rs.60 and its standard deviation was 14.79. The graph to the right illustrates the corresponding initial prices that auditors received from traders. The mean initial price offered by traders was considerably higher than that of artisans at Rs.36.35. Traders’ initial prices also varied widely, ranging from Rs.18 to Rs.75 with a standard deviation of 10.88. Note that, unlike artisans, traders did not offer any zero initial prices.

In order to investigate whether average initial prices differed significantly between auditor groups for both artisans and traders, Figure 5 plots the mean initial price offered to the three auditor groups, with error bars representing a 95\% confidence interval around the mean. The figure indicates that artisans charged the lowest prices to the Indian-Craft buyers (Rs.18.63) followed by the International buyers (Rs.28.15) and they charged the highest prices to the Indian-Baseline auditors (Rs.36.87). Traders, on the other hand, priced quite differently. They charged the highest mean price (Rs.45.30) to the International auditors and charged much lower prices to Indian-Craft (Rs.32.72) and Indian-Baseline (Rs.31.04) auditors. Both artisans and traders seemed to distinguish between the three experimental groups and charge them very different prices. In order to see if the prices charged lined up with my hypotheses, I turn to Figure 6 which displays artisans’ and traders’ mean discounts in initial price relative to the Indian-Baseline category, with error bars representing a 95\% confidence interval around the mean.
counts to Indian-Craft auditors relative to Indian-Baseline auditors (where the Indian-Craft and Indian-Baseline categories differed only in their level of discernment) whereas traders with low product attachment did not offer discounts to Indian-Craft buyers relative to Indian-Baseline buyers. Also, in line with Hypothesis 2, Figure 6 shows that artisans with high product attachment offered discounts to International buyers relative to Indian-Baseline buyers (where International buyers portrayed a higher level of discernment and higher willingness-to-pay than Indian-Baseline buyers) whereas traders with low product attachment charged International buyers significantly higher prices than Indian-Baseline buyers. These results suggest that sellers with varying product attachment do indeed price differently where sellers with high product attachment offer discounts to discerning buyers even when these buyers have a higher willingness-to-pay while sellers with low product attachment price in accordance with buyers’ willingness-to-pay.\textsuperscript{12}

INSERT FIGURE 6 ABOUT HERE

While the variation in mean discounts presented in Figure 6 was illuminating, Table 4 tests whether the log initial and final prices offered to different auditor groups are statistically different from each other, where the log specifications allow for an easy interpretation of price differences in percent terms. The OLS models I employ allow me to account for error structures robust to a group-level covariance,\textsuperscript{13} and add date and time-level fixed effects. Note that the design of the experiment where every buyer visits every seller in the sample eliminates the need for seller fixed effects though in unreported analyses, I verified that the results are robust to including seller fixed effects. Also, given the log specification, zero prices have been dropped here but the results are similar when zero prices are replaced by one, or tobit or censored regression models are run instead.

In Table 4, I regress price outcomes on three dummy variables, one for each buyer category, Indian-Baseline, Indian-Craft and International, using separate models for artisans and traders, focusing on the variation within sellers in prices offered to different buyer categories. Column (1) of the

\textsuperscript{12}It is interesting to note that the discounts offered by artisans are greater for Indian-Craft as compared to the International auditors. This suggests, perhaps, that artisans are most responsive to the customers who not only signal an appreciation for craft (like the international tourists), but who demonstrate a physical and monetary commitment to handicraft products by purchasing and wearing them.

\textsuperscript{13}Standard errors are clustered at the level of sellers (77 clusters); this allows for potential correlation in the error terms within sellers and uses repeated observations on transactions with the same seller to estimate standard errors robust to this problem (Angrist and Pischke, 2008). Standard errors are clustered in a similar way for all the models reported in this study.
table regresses initial price on Indian-Craft and International, using Indian-Baseline as the omitted category. The constant term gives us the estimated mean initial price of the omitted category, Indian-Baseline, conditional on covariates, while the coefficients on the Indian-Craft and International dummy variables provide estimates of the difference in mean prices between Indian-Baseline and the respective category. The table reports that artisans offered a 50% discount to Indian-Craft and a 27% discount to International buyers. This regression is then repeated in column (2) for traders. The table reports that traders charged almost the same price to Indian-Craft as they charged to Indian-Baseline, but charged 45% higher prices to International as compared to Indian-Baseline.\footnote{These results echo the observations in Figure 6 and provide additional support for Hypotheses 1 and 2. Columns (3) and (4) repeat these regression for final prices and find the same pattern in price discrimination for both artisans and traders, showing that the pricing behavior is resistant to bargaining.}

It is further remarkable in this setting that in some cases artisans offered bangles for free to some auditors, even before they had bargained for it whereas traders never offered their products for free. Artisans were so eager to sell to a particular buyer that they seemed willing to part with their product without any financial returns, serving perhaps as the strongest support that product attachment affects price-setting. Table 5 explores patterns in the “zero prices” offered by artisans to test whether there are significant differences across the 3 auditor categories. This is important because more than 10% of initial prices quoted and 12% of final sale prices were zero for artisans.\footnote{To test whether these zero prices differed across the auditor categories, I created dummy variables for both initial and final price indicating whether a given price is equal to 0. Table 5 reports the OLS regression on zero prices offered by artisans using a specification similar to Table 4. Column (1) shows that Indian-Craft auditors were 18% more likely to receive a zero initial price than Indian-Baseline, and International auditors were 7% more likely to receive a zero initial price than Indian-Baseline. This shows that artisans were more likely to give their products for free to Indian-Craft auditors.} It is further remarkable in this setting that in some cases artisans offered bangles for free to some auditors, even before they had bargained for it whereas traders never offered their products for free. Artisans were so eager to sell to a particular buyer that they seemed willing to part with their product without any financial returns, serving perhaps as the strongest support that product attachment affects price-setting. Table 5 explores patterns in the “zero prices” offered by artisans to test whether there are significant differences across the 3 auditor categories. This is important because more than 10% of initial prices quoted and 12% of final sale prices were zero for artisans.\footnote{Note that there are more zero final prices than zero initial prices, implying that not all zero prices are prior to bargaining.}

\footnote{The results are robust to using raw prices, dropping fixed effects and including zero prices, indicating that the results are not likely to be driven by differences in transaction-level characteristics, but by the role played by the auditor herself.}
discerning buyers, even when these buyers had a higher willingness-to-pay. Column (2) further shows that the results are even stronger for a zero final price.

This section has presented causal evidence that sellers with different levels of product attachment price very differently. These analyses used different types of sellers (artisans and traders) as a proxy for product attachment, where the hypotheses were tested by comparing artisans who make and sell handicraft products with high product attachment to traders who only sell these handicraft products with low product attachment. As a final check, I conducted a survey to explore variation in product attachment within one group of sellers - artisans - and its effect on price-setting. In the next section I describe my survey methods, which allowed me to collect data on the number of stages of the production process an artisan engages in, as a measure of product attachment, as well as data on demographic and other variables to rule out a plethora of alternative explanations.

**Survey Methods**

At the end of my research trip in June 2012, I conducted a survey of the 52 artisans and 23 traders who participated in my field audit study.16 This survey collected (a) descriptive data including age, family information, household assets, religion, education and leisure activities, (b) workplace data such as tenure in the profession and machinery owned, (c) occupational data regarding work practices and norms such as time spent working, knowledge of other crafts, generational shifts and secondary occupations, (d) financial data about income, prices and expenditure on raw materials, (e) sales data by different customer groups and (f) work process data. The nineteen page survey, translated into Kannada, was developed through an iterative process of referring to field notes, relevant literature (Aziz, 1979), and in consultation with handicraft and survey experts. The survey was administered by three trained surveyors who read the questions aloud, elicited responses and filled out the surveys on behalf of the respondents. An individual survey took about 30 minutes to complete and respondents were compensated for their time away from work.

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16There were 25 traders in the experimental sample but only 23 trader survey responses because one trader owned two shops and one trader refused the survey.
Survey Findings: Variation in Discounts to Discerning Buyers within Artisans

As Figure 1 makes clear, the process of producing artisanal products involved nine distinct processes. While the majority of artisans manufactured the entire product themselves, some artisans who retailed handmade products were not involved in the total manufacturing process, but would source semi-finished components from other local suppliers or outsource preparatory or finishing processes. We would expect artisans who were partially involved in the production process to have a lower degree of product attachment and price differently than those who were fully involved. I exploited this feature in my setting to examine the impact of artisans’ level of engagement with the production process on their discounts to discerning buyers, thus offering a stronger, within-seller test that product attachment affects price-setting.

In order to investigate such an effect, I used survey data that measured artisans’ involvement in each of the nine different stages that comprised the overall production process. I found that on average artisans in my sample engaged in about 6.4 work processes with a standard deviation of 2.25. Figure 7 graphs the impact of involvement in the production process on discounts in initial price using estimates from an OLS model. The underlying model regresses the initial price offered on dummy variables for auditor categories, as before, and also includes Processes as an independent variable. Processes is a discrete variable ranging from 1-9 measuring the number of work processes that a given artisan engaged in. Crucially, in addition to these main effects, the regression includes interactions between auditor category and Processes. This interaction term estimates how prices offered change for different buyer groups as an artisan engaged in a greater number of work processes. These estimates were then used to calculate the predicted discount than Indian-Craft and International auditors would receive from an artisan relative to the Indian-Baseline category depending on the auditor’s category and the artisan’s Processes. A convenient way of displaying these predictions obtained from regression coefficients is using a “marginal plot,” as shown in Figure 7.

Figure 7 makes clear that artisans’ discounts in prices offered to the Indian-Craft and International

\[17\] These processes include cutting the wood, seasoning the wood, turning the wood on a lathe, assembling the products, polishing, lacquering, painting, finishing and selling.
groups relative to the Indian-Baseline category increased with greater involvement in the production process. For example, the predicted discount to the buyer category Indian-Craft for artisans engaging in one production process was 12.95 but this increased to 20.73 for artisans engaging in all nine production processes. This offers additional evidence that product attachment influences price-setting by showing that as artisans engaged in more work processes, they gave greater discounts to discerning customers, even when these buyers had a higher willingness-to-pay.

**Ruling out Alternative Mechanisms.** Appendix A reports results from a number of robustness exercises performed to investigate alternative explanations for the pricing pattern observed. I am able to rule out that the difference between artisans’ and traders’ pricing pattern was driven by reputational concerns, socialization of artisans, community norms around pricing, artisans’ lack of market exposure, artisans’ fascination with high status customers and artisans’ expectation that discerning customers have better knowledge of the “true” prices of handicraft products. In particular, I am able to use survey data as well as GPS data on the precise location of individual sellers to construct measures for each of these alternative explanations and demonstrate that sellers varying along these measures set similar prices for each of the buyer categories. Please see Appendix A for more detail. Ruling out these alternative explanations instills further confidence that product attachment indeed has implications for price-setting.

**Discussion**

**Product Attachment and Price Discrimination**

This paper, which mirrored a full-cycle research design, introduced a new theory of product attachment and causally tested how it affected sellers’ price-setting behavior. In particular, I investigated how two groups of sellers differing in their level of product attachment, artisans and traders, priced their products to different buyers. I found that artisans in Channapatna, who had high product attachment, offered discounts in price to discerning buyers, even when these buyers had a higher willingness-to-pay because of an underlying preference to transact with buyers who would take care of their handmade products beyond the point of sale. However, I found that traders in Channapatna, who had low product attachment, price discriminated as we would traditionally expect
by setting prices in accordance with buyers’ willingness-to-pay. These findings about product attachment and price discrimination contribute to the literatures on price-setting and work.

**Contributions to Study of Price-Setting**

I make three contributions to the study of price-setting, which is one of the most fundamental activities in economic markets. First, in terms of how prices are set, prior studies have shown that sellers typically set prices for different buyers in line with short- or long-term profit maximization. However the findings presented here demonstrate that price discrimination can sometimes be inconsistent with profit-maximization even in the context of one-shot transactions, where buyers with a higher willingness-to-pay might be offered lower prices by economic actors. By predominantly focusing on markets for standardized goods such as car parts and financial services, existing studies may have overlooked diverse markets, including many markets in the developing world, where economic actors make the products that they sell and as such, set prices differently. There is anecdotal evidence that the pricing pattern observed in this paper where discerning buyers get discounts is quite common in the market for art, music, rare books, used cars and personal fitness services, to name a few.

Second, in terms of the conditions under which price-setting deviates from profit maximization, prior studies have suggested a few reasons why the prices sellers set may be inconsistent with maximizing profits in the short-run; however, these conditions are in line with profit maximization in the long run. My research shows that when sellers have product attachment, they set prices that are not in line with maximizing profits, in the short- or long-run. Sellers who are attached to their products care about the welfare of their products beyond the point of sale and therefore offer discounted prices to buyers with a higher willingness-to-pay who they believe will take care of their products even when these buyers have a higher willingness-to-pay. Future research could explore other values or interests that sellers hold dear such as moral sentiments (Zelizer, 1985; Wherry, 2012), social goals (Fourcade, 2011; Beckert and Aspers, 2011) and self-esteem (Velthuis, 2005; Anteby, 2006) that could similarly steer price-setting away from profit maximization.

Third, in terms of the criteria that economic actors use to evaluate buyers and make individual pricing decisions, the current literature focuses overwhelmingly on the willingness-to-pay of buyers for the product or service being transacted. However my findings show that sellers could use...
alternative criteria such as “level of discernment” to substitute or complement willingness-to-pay in evaluating buyers and making pricing decisions. There is anecdotal evidence that other sellers such as cabdrivers (Davis, 1959) and law professionals (Heinz and Laumann, 1982) also classify their clients along a variety of non-monetary dimensions and future research could investigate how these classifications affect the prices charged to clients.

**Contributions to Study of Work**

This paper also makes two contributions to our understanding of work. First, in terms of the motivations underlying work, scholars have suggested that individuals are more internally motivated (Ryan and Deci, 2000) when they identify with their work (Nelsen and Barley, 1997), their organizations (Adler, 1993) or their occupations (Bunderson and Thompson, 2009). In this paper I uncover another source of internal motivation where individuals identify with the output of their labor, what I call product attachment. I also articulate three indicators of product attachment, namely personal investment, internal quality standards and anthropomorphization of products.

Second, in terms of the implications of internal motivations underlying work, scholars have found that meaningful work is positively associated with several individual level outcomes such as job satisfaction, absenteeism and work performance (Wrzesniewski et al., 1997). However in this paper I find that the effect of such identification transcends individual level outcomes to impact core economic decisions such as prices charged. I find that when sellers are attached to their products, they price discriminate differently among different groups of buyers and even sacrifice monetary gains for the sake of their output.

**Implications for Practice**

This paper illustrates a case where a group of artisans facing poverty offer discounts to discerning buyers and thereby compromise on their profits as a result of their attachment to the handicraft products that they produce. This finding sheds light on the kinds of policy interventions that would and would not work to upgrade the lives of artisans in a country like India where handicrafts is the second largest employment category and is the primary source of livelihood for close to 10 million workers. The paper suggests that initiatives such as mechanization that could increase artisans’ productivity but would reduce their involvement in the production process are likely to be resisted.
even though if adopted, they could increase artisans’ profits. Instead, policies that make it easier for artisans to source raw materials such as wood\textsuperscript{18} without affecting artisans’ involvement in their production process have a higher likelihood of being successful.

In sum, this paper expands our understanding of perhaps one of the most central features of economic markets, i.e price-setting. By showing that sellers’ decisions about prices are not based solely on short- or long-run notions of profit maximization, but also on the concept of product attachment, we are able to understand why sellers might provide discounts to certain buyers with a high willingness-to-pay. In particular, I show that when sellers are attached to the products that they sell, they want more than just the best price for them; they also want their products to find the best “home.”

\textsuperscript{18}Sourcing high-quality \textit{hale} wood regularly and at reasonable prices is a serious challenge for artisans since they are completely dependent on the state Forestries department.
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Zbaracki, M. J. and M. Bergen

Zelizer, V. A. R.
Figures and Tables

Figure 1: A Diagram illustrating the Production Process

<table>
<thead>
<tr>
<th>Wood Cutting</th>
<th>Hale wood (Wrightia Tinctoria), which is fine-grained and lightweight, is first cut into desired sizes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood Seasoning</td>
<td>The wood is then seasoned by laying it out in the sun.</td>
</tr>
<tr>
<td>Wood Turning on Lathe</td>
<td>The seasoned wood is fixed to a motorized lathe to turn it into various shapes using different tools.</td>
</tr>
<tr>
<td>Polishing</td>
<td>Sandpaper is then pressed against rotating pieces of wood on the lathe to smoothen and polish and prepare the wood for the application of lacquer.</td>
</tr>
<tr>
<td>Lacquering</td>
<td>Lacquer sticks in various colors, made with shellac and vegetable dyes, are applied against the rotating wood pieces giving a uniform layer of colored lacquer.</td>
</tr>
<tr>
<td>Finishing</td>
<td>A dry kevda (screwpine) leaf is pressed against the rotating pieces to attain a uniform glossy finish.</td>
</tr>
<tr>
<td>Painting</td>
<td>The pieces are then taken off the lathe and hand-painted with water color if desired.</td>
</tr>
<tr>
<td>Assembly</td>
<td>The finished pieces are sorted for any defects and assembled to make the final product.</td>
</tr>
<tr>
<td>Selling</td>
<td>The final products are stocked in the shop to be sold.</td>
</tr>
</tbody>
</table>
Figure 2: GPS Plot of Artisans and Traders in Sample
Figure 3: Experimental Treatment - Buyer Categories

<table>
<thead>
<tr>
<th>LEVEL OF DISCERNMENT</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>WTP</td>
<td>Indian-Baseline</td>
<td>Indian-Craft</td>
</tr>
<tr>
<td>High</td>
<td>X</td>
<td>International</td>
</tr>
</tbody>
</table>

Note: This table depicts the three buyer categories that constituted the treatment for the field experiment: The first category was *Indian-Baseline*, consisting of Indian buyers who dressed as usual - this category acted as a control group for the experiment. The second category was *Indian-Craft*, consisting of Indian buyers wearing handmade craft products and the third category was *International*, consisting of foreigner-buyers. Sellers in this setting treated all international tourists as being discerning and as such, it was not possible to create a buyer category that represented a low level of discernment and a high willingness-to-pay.

Figure 4: Distribution of Initial Price (in Rupees) for Artisans

Histogram of Artisans’ Initial Prices

Histogram of Traders’ Initial Prices

Initial Price: price first quoted by seller
Exchange Rate: Rs.50=$1
Figure 5: Mean Initial Price (in Rupees)

Figure 6: Sellers’ Discounts in Initial Price (in Rupees) relative to Indian-Baseline Buyers
Figure 7: Predicted Impact of Artisans’ Involvement in the Production Process on Discounts in Initial Price (in Rupees) relative to Indian-Baseline Buyers

Note: This graph captures how artisans’ price discounts to the Indian-Craft and International buyers change differentially as artisans are involved in more production processes. Processes is a continuous variable ranging from 1-9 measuring the number of steps in the production process an artisan engages in. Estimates are reported from a regression with Initial Price as the dependent variable and Buyer Category dummies and Processes as independent variables, including both main effects and interactions between buyer groups and processes. Each data point represents the predicted difference in price between a treatment buyer category (Indian-Craft or International) and the control buyer category (Indian-Baseline) at a given process level.
<table>
<thead>
<tr>
<th></th>
<th>Artisan</th>
<th>Trader</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fraction Male</strong></td>
<td>0.923</td>
<td>1</td>
<td>-0.077</td>
</tr>
<tr>
<td>(0.269)</td>
<td>(0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>42.65</td>
<td>46</td>
<td>-3.346</td>
</tr>
<tr>
<td>(9.903)</td>
<td>(9.582)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Work Tenure (years)</strong></td>
<td>23.71</td>
<td>19.32</td>
<td>4.396</td>
</tr>
<tr>
<td>(10.13)</td>
<td>(17.54)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Family Members</strong></td>
<td>6.423</td>
<td>5.826</td>
<td>0.597</td>
</tr>
<tr>
<td>(4.421)</td>
<td>(2.146)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fraction Married</strong></td>
<td>0.942</td>
<td>1</td>
<td>-0.058</td>
</tr>
<tr>
<td>(0.235)</td>
<td>(0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fraction Muslim</strong></td>
<td>0.769</td>
<td>0.130</td>
<td>0.639***</td>
</tr>
<tr>
<td>(0.425)</td>
<td>(0.344)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fraction Backward Castes</strong></td>
<td>0.885</td>
<td>0.826</td>
<td>0.059</td>
</tr>
<tr>
<td>(0.323)</td>
<td>(0.388)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Years of Education Completed</strong></td>
<td>6.788</td>
<td>10</td>
<td>-3.212***</td>
</tr>
<tr>
<td>(3.472)</td>
<td>(3.516)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fraction Literate</strong></td>
<td>0.885</td>
<td>0.957</td>
<td>-0.072</td>
</tr>
<tr>
<td>(0.323)</td>
<td>(0.209)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exhibitions Attended/year</strong></td>
<td>1.292</td>
<td>2.200</td>
<td>-0.908</td>
</tr>
<tr>
<td>(1.732)</td>
<td>(1.095)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Visits to Bangalore/month</strong></td>
<td>3.241</td>
<td>2.450</td>
<td>0.791</td>
</tr>
<tr>
<td>(2.325)</td>
<td>(1.538)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Radio Listening Hours/day</strong></td>
<td>4.667</td>
<td>3.200</td>
<td>1.467</td>
</tr>
<tr>
<td>(2.371)</td>
<td>(3.676)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income in Dollars</strong></td>
<td>77.39</td>
<td>155.2</td>
<td>-77.850***</td>
</tr>
<tr>
<td>(50.18)</td>
<td>(85.53)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fraction in Cooperatives</strong></td>
<td>0.288</td>
<td>0.261</td>
<td>0.028</td>
</tr>
<tr>
<td>(0.457)</td>
<td>(0.449)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Observations</strong></td>
<td>52</td>
<td>23</td>
<td></td>
</tr>
</tbody>
</table>

mean coefficients; sd in parentheses
* p<0.1, ** p<0.05, *** p<0.01

*Source*: Survey conducted in June 2012 with sellers in experimental sample; 100% response rate for artisans and 96% response rate for traders; one trader refused the survey and one trader owns two shops in the sample
Table 2: Number of Sales Transactions by Sellers and Buyers

<table>
<thead>
<tr>
<th>BUYERS</th>
<th>SELLERS</th>
<th>Artisans (n=52)</th>
<th>Traders (n=25)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian-Baseline (n=2)</td>
<td>103</td>
<td>50</td>
<td>153</td>
<td></td>
</tr>
<tr>
<td>Indian-Craft (n=2)</td>
<td>102</td>
<td>50</td>
<td>152</td>
<td></td>
</tr>
<tr>
<td>International (n=2)</td>
<td>100</td>
<td>50</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>305</td>
<td>150</td>
<td>455</td>
<td></td>
</tr>
</tbody>
</table>

*Experimental Design:*

6 buyers were hired to purchase bangles from a sample of artisans and traders;
Buyers visited the 2 types of sellers in a randomly assigned order;
The buyers represented 3 experimental categories:
Foreigners, Indians wearing handmade craft products and Indians dressed as usual

Table 3: OLS Balance Checks on Experimental Transactions

<table>
<thead>
<tr>
<th></th>
<th>(1) Availability of Electricity</th>
<th>(2) Stock Left</th>
<th>(3) Presence of Seller’s Spouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian-Craft</td>
<td>-0.095</td>
<td>3.865</td>
<td>0.119*</td>
</tr>
<tr>
<td></td>
<td>(0.056)</td>
<td>(2.502)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>International</td>
<td>-0.034</td>
<td>3.742</td>
<td>0.063</td>
</tr>
<tr>
<td></td>
<td>(0.057)</td>
<td>(2.510)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.627***</td>
<td>12.438***</td>
<td>0.163***</td>
</tr>
<tr>
<td></td>
<td>(0.040)</td>
<td>(1.766)</td>
<td>(0.034)</td>
</tr>
</tbody>
</table>

Observations: 455

Indian-Baseline is the omitted category
Standard errors in parentheses
* p<0.1, ** p<0.05, *** p<0.01

*Note:* Auditors collected data on these baseline characteristics after every transaction;
*Availability of Electricity:* Dummy variable indicating if there was electricity at time of sale
(Channapatna faces power outtages of 3-4 hours a day);
*Stock Left:* Estimate of number of bangles left with seller after sale;
*Presence of Seller’s Spouse:* Dummy variable indicating if spouse was present during sale
Table 4: OLS Regression on Log Prices

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Artisans-Initial</td>
<td>Traders-Initial</td>
<td>Artisans-Final</td>
<td>Traders-Final</td>
</tr>
<tr>
<td>Indian-Craft</td>
<td>-0.508***</td>
<td>0.113*</td>
<td>-0.558***</td>
<td>0.049</td>
</tr>
<tr>
<td></td>
<td>(0.048)</td>
<td>(0.052)</td>
<td>(0.061)</td>
<td>(0.058)</td>
</tr>
<tr>
<td>International</td>
<td>-0.274***</td>
<td>0.451***</td>
<td>-0.325***</td>
<td>0.401***</td>
</tr>
<tr>
<td></td>
<td>(0.051)</td>
<td>(0.074)</td>
<td>(0.057)</td>
<td>(0.067)</td>
</tr>
<tr>
<td>Constant</td>
<td>3.733***</td>
<td>3.157***</td>
<td>3.569***</td>
<td>3.057***</td>
</tr>
<tr>
<td></td>
<td>(0.069)</td>
<td>(0.124)</td>
<td>(0.079)</td>
<td>(0.113)</td>
</tr>
<tr>
<td>Date FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Time of Day FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>275</td>
<td>150</td>
<td>268</td>
<td>150</td>
</tr>
</tbody>
</table>

Indian-Baseline is the omitted category
Standard errors clustered by seller are in parentheses
Zero prices have been dropped in this table to calculate log prices
Results are robust to exclusion of fixed effects and inclusion of zero prices (in un-logged models).
* p<0.1, ** p<0.05, *** p<0.01
Table 5: OLS Regression on Likelihood of Zero Prices offered by Artisans

<table>
<thead>
<tr>
<th></th>
<th>Zero Initial Price</th>
<th>Zero Final Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Indian-Craft</td>
<td>0.180***</td>
<td>0.237***</td>
</tr>
<tr>
<td></td>
<td>(0.044)</td>
<td>(0.051)</td>
</tr>
<tr>
<td>International</td>
<td>0.068*</td>
<td>0.091**</td>
</tr>
<tr>
<td></td>
<td>(0.037)</td>
<td>(0.038)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.034</td>
<td>-0.067</td>
</tr>
<tr>
<td></td>
<td>(0.055)</td>
<td>(0.055)</td>
</tr>
<tr>
<td>Date FE</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Time of Day FE</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>305</td>
<td>305</td>
</tr>
</tbody>
</table>

Indian-Baseline is the omitted category
Standard errors clustered by seller in parentheses
Results are robust to exclusion of fixed effects

* p<0.1, ** p<0.05, *** p<0.01

Zero Initial Price: Dummy variable indicating if initial price=0
Zero Final Price: Dummy variable indicating if final price=0

10% of initial prices quoted by artisans and 12% of final sale prices were zero
Appendix A : Robustness Checks

This section describes results from a number of robustness exercises performed to investigate alternative explanations for artisans’ distinctive pricing behavior.

First, the field experimental setting is able to rule out the competing alternative explanation of reputational incentives, that artisans gave discounts in the short-run for lucrative gains from an enhanced reputation in the long-run: as discussed in the paper, artisans in Channapatna produced and sold in anonymity, lacked branding (did not sign their products) and given the isolation of the town, engaged in one-time transactions with tourists devoid of reputational concerns (over 90% of artisans reported never selling twice to the same direct customer).

In many settings, one might suggest that pricing behavior is driven by pervasive socialization of actors in an occupational community. How artisans price to different customers might be driven by values and practices that they are exposed to during their apprenticeship, which they gradually habituate through increased contact with their peers in the local community. If this process was important in my setting, we would expect to see older and more experienced artisans experiencing a greater degree of socialization and offering greater discounts to Indian-Craft and International auditors. However, this prediction does not hold true in the data (Figure A.1 and A.2).

While socialization does not seem to be an important determinant of pricing behavior in this case, a similar but distinct alternative explanation could be that artisans’ pricing behavior is driven by community norms around pricing, where sanctions are imposed if discerning buyers are charged high prices. The idea here is that, while an individual artisan might not be willing to offer a discount, he is forced to do so because of peer pressure from other artisans in the vicinity who might be monitoring his behavior. While the paper has qualitatively established that artisans in Channapatna operated in relative isolation and were unable to observe each other’s dealings, a formal test for this idea can be performed using precise locational data obtained from a handheld geopositioning (GPS) device. This device enabled not only the collection of the exact latitudinal and longitudinal position for each artisan and trader, but also the calculation of the number of other sellers living with a certain radius of a given seller. Figure A.3 reports the mean prices offered by two groups of artisans, distinguished by the number of other sellers present in their vicinity. The results indicate that artisans who lived in a “sparse” surrounding (with less that 12 artisans in a 0.2 mile radius) did not price significantly differently than artisans who lived in a
more densely packed neighborhood (with relatively greater probability of being observed during transactions), suggesting that community sanctions do not seem to be an important factor as far as pricing decisions of artisans are considered.

The GPS data also facilitated the investigation of the alternative explanation that artisans’ pricing behavior is driven by their level of market exposure. If artisans do not have enough exposure to different types of customers, then we do not expect them to price “optimally” in a narrow financial sense, like the traders. This can be tested in two ways. First, artisans who live close to the highway (and therefore have relatively more exposure to tourists) should offer smaller or no discounts to discerning buyers as compared to artisans who live in interior regions. Second, artisans who transact with traders on a regular basis should be expected to offer lower discounts because they have a better sense of traders’ “optimal” pricing structures. However, the data seem to reject both of these predictions. Group means as indicated in Figures A.4 and A.5 suggest that artisans’ distance from the highway and whether artisans transact with traders did not affect the size of the discounts offered to Indian-Craft and International auditors. This finding provides some evidence that a lack of market exposure does not seem to be driving the pricing behavior in this setting.

Another alternative explanation that could account for the pricing pattern is based on notions of artisans’ naivete or their fascination with customers from high status groups. Here, the idea is that artisans become so enamored with international tourists or customers wearing craft products that they find themselves offering discounts that they would not give to other customers. The first thing to note is that artisans gave the greatest discounts to Indian-Craft who would not traditionally be considered high status and definitely, not as high status as International auditors. Further, in the survey that I conducted, one question asked about artisans’ frequency of visits to nearby cities, especially Bangalore because it is the capital of the state of Karnataka where Channapatna is situated, it is not too far away and because it is a prominent shopping destination both for international tourists and art-loving Indian customers. Insofar as Bangalore provides sellers exposure to high status customers and foreign tourists, one would expect that artisans who visit Bangalore have a lower degree of fascination towards International or Indian-Craft auditors. However, Figure A.6 demonstrates that this prediction was not true in the data, suggesting that fascination with high status customers or artisans’ naivete does not seem to be an important driver of the main results. Finally, while it seems unlikely, it is possible that international customers or those wearing craft
jewelry might have relatively greater experience shopping for craft items in India and are therefore more conversant with the prices that are typically charged for such products, while other Indian customers are unaware of such details. This explanation predicts that artisans, knowing that experienced customers have a keen knowledge of “true” prices, offer such customers lower prices as compared to other inexperienced customers. Fortunately, the survey I conducted collected data on prices that artisans charged, on average, to retail clients for the Channapatna Bangle. The survey found that the average price that artisans obtained for the Channapatna bangle was Rs.32.50, as determined by their answer to the question – “How much do you typically sell half-inch bangles for?” This price is significantly higher than the average initial price that both International and Indian-Craft auditors were offered, indicating not only that artisans offered these buyers prices that were not equal to the average prices for bangles in the area, but also that they sacrificed substantial profits in order to be able to sell to more discerning customers. Experienced customers’ prior knowledge of true prices therefore, does not seem to be driving differential pricing decisions here.

The results provided in this section thus offer further support for the theory that artisans’ pricing behavior is driven by their attachment to their products.
Figure A.1: Robustness Check for Artisans: Age

Figure A.2: Robustness Check for Artisans: Work Tenure
Figure A.3: Robustness Check for Artisans: Presence of Neighboring Sellers

Mean Initial Price

Indian-Baseline | Indian-Craft | International

BUYERS

Sparse | Dense

Sparse <= 12 sellers, Dense > 12 sellers in a 0.2 mile radius
Exchange Rate: Rs.50=$1

Figure A.4: Robustness Check for Artisans: Distance from Highway

Mean Initial Price

Indian-Baseline | Indian-Craft | International

BUYERS

Near | Far

Near <= 0.2 miles, Far > 0.2 miles from highway
Exchange Rate: Rs.50=$1
Figure A.5: Robustness Check for Artisans: Business with Traders

Figure A.6: Robustness Check for Artisans: Visits to Bangalore
Figure A.7: Robustness Check for Artisans: Income

Poor earns less than or equal to Rs.5000 a month, Rich have income greater than Rs.5000
Exchange Rate: Rs.50=$1

Figure A.8: Robustness Check for Artisans: Religion

77% of Artisans and 13% of Traders are Muslim
Exchange Rate: Rs.50=$1
Figure A.9: Robustness Check for Artisans: Education

![Chart showing mean initial price for different education levels and buyer types.]

- **Mean Initial Price** for different buyer types and education levels.
- **Indian-Baseline**, **Indian-Craft**, and **International** buyer types.
- **Primary** vs. **Secondary** education levels.

Exchange Rate: Rs.50=$1