

# The Effects of Price Context and Prior Product Knowledge on Consumers' Product Evaluations

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## Abstract

This research examines how consumers rely on price and prior product knowledge in product quality evaluations. To understand the interaction effects of price context and prior product knowledge on quality evaluations, a conceptual framework based on cue utilization theory and information processing theory was developed. It is proposed that low knowledgeable consumers are more likely to use price as a quality indicator in a low-priced context; moderate knowledgeable consumers tend to rely on their knowledge to make product evaluations; high knowledgeable consumers are more likely to use their product knowledge in a high-priced context. Experimental studies were conducted using student subjects to test the proposed hypotheses. Results of the experiments showed significant interaction effects between price context and prior knowledge on quality evaluations. A significant quadratic relationship between the use of price and the level of prior product knowledge was observed only in a low-priced context, providing support for the proposed hypotheses in the conceptual model.

**Keywords:** price context, product knowledge, price perception, quality evaluations

## 1. Introduction

When shopping, consumers often view a number of options before selecting a particular product for further consideration. Prices of products within a product category offered vary across different types of retailers. Thus, different amount of information across product alternatives creates a different context for evaluations of these products. For example, prices of eye creams at Macy's range from \$15 to \$124.99. However, it is not surprising to see that most of the eye creams at an upscale department store such as Neiman Marcus are priced at \$155, \$275, or even \$320. Buyers choose from an array of alternative brands, features, sizes, and each have a separate price. Comparing a product with others in its category is a natural and automatic way of evaluating products and services (Ariely & Loewenstein, 2000). Thus, judgments of a product are affected not only by its own characteristics but also by the characteristics of other products in the same category that are judged concurrently (Farley, Katz, & Lehman, 1978). Such shopping behavior raises a question as to how this contextual information would influence buyers' price and quality evaluations.

In the pricing literature, evidence of context effects has been identified in price and quality evaluations (Adval & Monroe, 2002; Biswas & Blair, 1991; Della Bitta & Monroe, 1974). For instance, Della Bitta & Monroe (1974) explored the existence of an adaptation level price and buyers' use of it as an anchor for subsequent price judgments. Consumers' price perceptions and purchase behaviors are strongly influenced by shelf tags that imply price promotions even when there is no actual price reduction (Grewal et al., 1996; Inman, McAlister & Hoyer, 1990). Adaval & Monroe (2002) found that a product will be judged as more expensive when it is relatively expensive than when it is relatively cheap compared with other alternatives. These studies provide evidence that price information in a specific context might influence people's internal standards used in a subsequent evaluation process.

However, the extent to which consumers rely on price in product evaluations may also depend on how much they know about the product category. Consumers' prior knowledge often serves as an important means of market segmentation. For example, an advertisement for digital cameras targeting consumers with high prior knowledge of cameras might present technical information, such as the megapixels, lens, and memory cards, because such information is particularly informative to this segment (Hong & Sternthal, 2010; Maheswaran & Sternthal, 1990). In contrast, for consumers with limited knowledge about digital cameras, the advertisement might highlight the benefits

of the product's technical features, such as the ability to capture images with exceptional clarity resulting from the CMOS (complementary metal oxide semiconductor) sensor, because this information is most informative for these consumers.

Consumers have differentially developed prior knowledge of products (Johnson & Russo, 1984; Park & Lessig, 1984). Knowledgeable consumers differ from less knowledgeable ones in terms of how much information they search (e.g., Bettman & Park, 1980; Brucks, 1985; Mandel & Johnson 2002), what type of information they select, as well as how they process the selected information in evaluations (e.g., Alba & Hutchinson, 1987; Ofir et al., 2008; Rao & Monroe, 1988).

As much as evidence exists that prior knowledge is one of the most powerful factors to predict consumers' evaluations, other research has found that higher knowledge does not necessarily lead to better cognitive performances (Camerer & Johnson, 1991) and suggests that the use of knowledge might be context dependent (Brucks, 1985; Maheswaran & Sternthal, 1990). The major objective of this research is to examine how price context interacts with prior product knowledge to affect consumers' product evaluations. Specifically, does certain price context impact those with consumers more knowledge differently compared to those with less knowledge? Do experts use knowledge differently in different contexts? The insight into the interaction of price context and prior knowledge in consumers' quality evaluations would provide valuable knowledge and managerial direction to study how price information is encoded and processed in quality evaluations.

## **2. Literature Review and Conceptual Development**

### *2.1 Cue Utilization Theory*

Based on cue utilization theory (Cox, 1967; Olson & Jacoby, 1972), products, services, or stores can be conceptualized as consisting of a number of cues that can be used as indicators of quality by consumers. A cue is defined broadly as any informational stimulus about or relating to the product, service or purchase context. Olson & Jacoby (1972) propose that product cues can be classified as intrinsic or extrinsic to the product. Intrinsic cues are product-related attributes and involve physical composition of the product, such as ingredients. Extrinsic cues are product-related attributes apart from the physical product, such as price, brand name, warranty, country of origin and packaging. Consumers rely on intrinsic and extrinsic cues when evaluating quality.

The relative salience of extrinsic versus intrinsic cues in quality evaluation depends on their predictive and confidence values. Alba et al. (1999) propose that product evaluations are based on combining intrinsic product features and extrinsic cues. Intrinsic cues are more important for consumers in assessing product quality because they have more predictive values than extrinsic cues (Darden & Schwinghammer, 1985; Etgar & Malhotra, 1978; Olson & Jacoby, 1972; Szybillo & Jacoby, 1974). However, when intrinsic information is scarce or not deemed useful, or there is no opportunity to process it, extrinsic cues are more likely to be used to assess product quality, resulting in an evaluation that is more heuristic in nature (Monroe, 2003; Suri & Monroe, 2003). Consumers depend on extrinsic cues such as brand name, price, and store name more than intrinsic cues when evaluation of intrinsic cues requires more effort and time than the consumers perceive worthwhile (Zeithaml, 1988). Generally, brand name is the most influential extrinsic cue for assessing quality. Price is second in relative size of effect, followed by physical characteristics or store name (Dawar & Parker 1994; Monroe, 2003).

When there are multiple extrinsic cues available, the joint effect of multiple extrinsic cues tends to be stronger than the effects of individual cues. Dawar & Parker (1994) observe that brand name and price together are most useful in quality determinations. Chao (1998) finds that the price-quality relationship is enhanced when paired with positive country-of-origin brand. However, the joint effect of multiple extrinsic cues is only stronger when intrinsic information is scarce and when those cues provide corroborating information (e.g., when a positive price is paired with a strong warranty). When the two cues are inconsistent, buyers find the negative cue more salient and overweigh it in their evaluations (Miyazaki, Grewal, & Goodstein, 2005).

Other research suggests that consumers tend to use both intrinsic and extrinsic cues concurrently when evaluating product quality (Jacoby, Olson, & Haddock, 1971; Kardes et al., 2004; Szybillo & Jacoby, 1974). Additionally, buyers' reliance on extrinsic versus intrinsic cues varies as a function of prior product knowledge (Rao & Monroe, 1988; Rao & Sieben, 1992). As buyers become familiar with a product, they are more likely to use intrinsic cues rather than price or other external cues as indicators of quality.

### *2.2 Dual Role of Price*

Traditionally, price has been considered as a negative product attribute that performs as a disincentive to purchase products, i.e., monetary sacrifice. However, studies also found that perceptions of product quality are also a function

of price. Moreover, consumers tend to prefer higher-priced products when price is the only information available, when there is a belief that the quality of available brands differs significantly, and when the price differences between choices are large (Monroe, 1976). It has been demonstrated that a positive price-perceived quality relationship exists (Monroe & Krishnan, 1985; Rao & Monroe, 1989; Zeithaml, 1988). Thus, price is used to infer both a product's quality and the monetary sacrifice associated with a purchase (Dodds et al., 1991). Monroe & Krishnan (1985) proposed a price-perceived quality tradeoff model. Buyers are posited to perform a tradeoff between the benefits, or quality and the monetary sacrifice they perceived as required to acquire the product, so as to arrive at a judgment of product value. When encoded to consumers' memory, a subjective perception of the price as high or low along a price continuum is created, and implications on both perceived product quality and perceived monetary sacrifice are derived accordingly (Monroe, 1976). Zeithaml (1988) extended this model by introducing the concept of nonmonetary sacrifice. Time and effort involved in the purchase process represent sacrifices by consumers in addition to the monetary sacrifice incurred by paying the product price.

### *2.3 Context Effects in Pricing*

Context effect is the aspect of cognitive psychology that describes the influence of environmental factors on one's perception of a stimulus. Past research in social and cognitive psychology has demonstrated that some judgments may be very sensitive to the context in which the judgment is made. In the pricing literature, there is evidence indicating that consumers' price perceptions are influenced by contextual information, such as the size of the price claim (Berkowitz & Walton, 1980), the semantic content of the price claim (Della Bitta, Monroe, & McGinnis, 1981), brand name (Blair & Landon, 1981), price display format (Inman, McAlister, & Hoyer, 1990), incidental prices (Nunes & Boatwright, 2004), and store image (Berkowitz & Walton, 1980). For example, researchers found that some consumers react to promotion signals without considering relative price information. Consumers are more likely to purchase a brand merely because it has a sign attached to the brand display (Blattberg, Eppen, & Lieberman, 1981; Kumar & Leone, 1988). Price perceptions are strongly influenced by shelf-tags even when there is no actual price reduction (Inman, McAlister, & Hoyer, 1990).

Adaval & Monroe (2002) found that price judgments are dependent upon the prices of other alternatives that are evaluated concurrently. Hence, a product would be judged as more expensive when it is relatively expensive than when it is relatively cheap compared with other alternatives. Additionally, Nunes & Boatwright (2004) found further evidence that incidental prices, defined as prices advertised, offered, or paid for unrelated products or goods that neither sellers nor buyers regard as relevant to the price of an item that they are engaged in selling or buying, affect consumers' willingness to pay. They argued that these incidental prices can serve as anchors, thus affecting willingness to pay for the product that consumers intend to buy. Generally, it has been posited that buyers use either adaptation level price or external reference price as an anchor for subsequent price judgments (Della Bitta & Monroe, 1974).

### *2.4 Lower-end vs. Higher-end Price Context*

Buyers choose from an array of alternative brands, features, and size. This array of prices confronting the buyer constitutes the price structure (Monroe, Della Bitta, & Downey, 1977). Price perceptions toward a target product would be influenced by its relative position within a set of prices. In product-line pricing, the lowest and highest prices in the product line are more noticeable than those between and hence would anchor consumers' judgments (Petroshius & Monroe, 1987). These end prices, along with the reference price would affect the price perceptions for a particular product. Specifically, the range of prices in the product line influenced consumers' judgments of a particular model in the line. Products that are priced at the higher end of the product line were evaluated as of higher quality than products positioned at the lower end. Prices at the ends of a price range disproportionately influence consumer judgments (Monroe, 2003). As price increases, *ceteris paribus*, perceived quality would increase. However, as price increases, its perceived sacrifice also increases and at some point would be greater than the perceived benefits of the positive perceived quality. Therefore, when prices of products are perceived to be different, consumers are more likely to be concerned about the monetary sacrifice required to purchase the product at a higher end of a price range. At the lower end of a price range, consumers are more likely to be concerned about the quality of the product. Hence in this situation price-quality relationship tends to be of greater concern than the price-monetary sacrifice relationship. To summarize, when buyers perceive the target product's price is high relative to other products, then they are more concerned about the monetary sacrifice required to purchase this product; when buyers perceive the target product's price to be relatively low, then they may become suspicious of the product's quality.

### *2.5 Prior Product Knowledge: The Concept and Measures*

Consumers are assumed to have some amount of experience with or information about particular products and have differently developed prior product knowledge (Alba & Hutchinson, 1987; Johnson & Russo, 1984). Alba & Hutchinson (1987) suggest that consumer knowledge has two components: familiarity and expertise. Familiarity is defined as the number of product-related experiences accumulated by a consumer, and expertise is the ability to perform product-related tasks successfully. Generally, product experience is a necessary but insufficient condition for consumer expertise. Prior product knowledge has been operationalized as familiarity (Park & Lessig, 1981), expertise (Brucks, 1985), and purchase experiences (Marks & Olson, 1981; Monroe, 1976) in previous research. The measures of consumer product knowledge fall into three categories. The first is objective knowledge, which is the amount of accurate information stored in long-term memory about the product class (e.g., Russo & Johnson, 1980; Staelin, 1978). The second measure is self-assessed knowledge or subjective knowledge, i.e., an individual's perception of how much he/she knows (e.g., Gardner, 1983; Park & Lessig, 1981). The third category measures the amount of purchasing or usage experience with the product (e.g., Monroe, 1976; Marks & Olson, 1981).

There has been some debate over which product knowledge measure is a better predictor in evaluation or decision-making. Some researchers argue that experience-based measures of knowledge are less directly linked to behavior than the other types of knowledge measures because experience affects behavior only when experience results in differences in memory (Brucks, 1985). Some researchers believe that subjective knowledge is a better predictor because what people perceive they know is likely to depend on what they actually know as well as their self-confidence in the amount and type of knowledge held in memory. Thus, measures of subjective knowledge can indicate both self-confidence levels and objective knowledge (Park & Lessig, 1981).

Other research found a relatively weak relationship between subjective and objective knowledge (Radecki & Jaccard, 1995). One explanation for this weak correlation between subjective and objective knowledge is that the knowledge test did not correspond to what was in the minds of the respondent when they answered the perceived knowledge questions. Hence, differences between what individuals actually know and what they believe they know occur when people do not accurately perceive how much they actually know about the product category (Radecki & Jaccard, 1995). Additionally, a few studies used both subjective and objective product knowledge measures (e.g., Rao & Monroe, 1988). According to Rao & Monroe (1988), prior product knowledge is defined as the amount of accurate information held in memory about product alternatives as well as self-perceptions of this product knowledge.

Although the measures of product knowledge differ in previous research, there have been consistent findings that consumers' prior product knowledge affects their information processing in product evaluations. Knowledgeable consumers differ from less knowledgeable ones in terms of how much information they search (e.g., Bettman & Park, 1980; Brucks, 1985; Mandel & Johnson, 2002), the type of information they select, as well as how they process such information in evaluations (e.g., Alba & Hutchinson, 1987; Ofir et al., 2008; Rao & Monroe, 1988).

### *2.6 Prior Product Knowledge and Use of Price*

Consumers have differentially developed product knowledge, and thus would use different information in product evaluations (Park & Lessig, 1981). Knowledgeable consumers have relatively well-developed knowledge structures, which include evaluative criteria and rules for product assessment, enabling them to process intrinsic information. Indeed, any relevant stimulus may trigger associations in the knowledge structure allowing knowledgeable consumers to use intrinsic cues in product evaluation (Hayes-Roth, 1977; Marks & Olson, 1981). Additionally, they can focus on information that is relevant to their goal (e.g., make quality evaluations) and ignore irrelevant information (Johnson & Russo, 1984; Lewandowsky & Kirsner, 2000). In general, knowledgeable consumers tend to use product-related intrinsic cues because they are more predictive than extrinsic cues (Darden & Schwinghammer, 1985; Etgar & Malhotra, 1978; Olson & Jacoby, 1972; Syzybillo & Jacoby, 1974; Zeithaml, 1988), and also because the intrinsic cues allow them to use their knowledge to infer benefits from the stated attributes (Maheswaran & Sternthal, 1990). As Alba & Hutchison (1987, p. 426) stated, a technical attribute focus is likely to be effective because knowledgeable consumers are "able to infer all of the related benefits and find technical description to be more convincing". In contrast, consumers with low prior product knowledge are more likely to rely on extrinsic cues such as price (Rao & Monroe, 1988) and brand name (Park & Lessig, 1981) in product evaluations because they are less able to interpret and use intrinsic attributes of the product. Thus, as consumers become more familiar with product, they are more likely to use intrinsic cues rather than price or other external cues as indicators of product quality.

Research also suggests that consumers, who differ in their amount of prior knowledge, even if they use the same information, may reach different evaluations because they use the same information for different reasons. For

example, subjects in the low familiarity condition selected extrinsic information such as brand name as the only product attribute of significance, but subjects in the high familiarity condition needed only brand information to generate a complex schema that included information about other product attributes (Park & Lessig, 1981). Therefore, individuals' prior product knowledge would affect what cues are selected and how these cues are used to make quality judgments.

Rao & Monroe (1988) categorized consumers into three groups according to their product knowledge level: low, moderate, and high. They suggest that the trend exhibited between prior knowledge and relative attention paid to extrinsic information would be quadratic (U-shaped). Specifically, when assessing product quality, the attention accorded to extrinsic information relative to intrinsic information will first decline and then increase, as prior knowledge increases, for products in which extrinsic information is useful in assessing product quality. Moderate knowledgeable buyers have knowledge structures that allow them to rely on intrinsic product information; however, they are not as confident as experts about their product knowledge (Johnson & Russo, 1984; Payne et al., 1992; Rao & Monroe, 1988). In this case, they are more likely to process information systematically by examining intrinsic cues. As far as experts are concerned, their use of intrinsic cues depends on the diagnostic value of the extrinsic information. They are more likely to use price as an indicator of quality if they believe (or know) there is an actual positive price-quality relationship in the product market, because in such a situation price information would be easier to interpret than intrinsic information (Rao & Monroe, 1988; Scitovsky, 1944). Moreover, they would be more confident about their product knowledge than consumers with moderate prior knowledge. Previous research suggests that high knowledgeable consumers would use the same heuristics as novice consumers, but they are more certain about the cues selected to make evaluations (Payne et al., 1992). Thus, consumers with high prior product knowledge would be less likely to process information systematically than those with moderate knowledge. Thus, "the use of price and/or other extrinsic cues as indicators of quality depends on the relative perceived differences between different cues and on the degree to which buyers know about the product and actual price-quality relationships" (Monroe, 2003, p. 161).

Therefore:

H1: If consumers have low prior product knowledge, then they will be more likely to use price to infer quality.

H2: If consumers have moderate prior product knowledge, then they will be less likely to use price to infer quality.

H3: If consumers have high prior product knowledge, then they will be more likely to use price to infer quality when they believe there is a positive price-quality relationship in the market.

### *2.7 Price Context and Prior Product Knowledge*

As much as evidence exists that prior knowledge is one of the most powerful factors to predict consumers' evaluations, other research has found that higher knowledge does not necessarily lead to better cognitive performances (Camerer & Johnson, 1991). In a psychology study by Lewandowsky & Krisner (2000), experts were not always better than novices when they were asked to predict a bush fire in Australia. Some argued that differences between knowledgeable and less knowledgeable people should be stronger in situations where knowledge is important. By manipulating the purchase goal, Brucks (1985) found that consumers are more likely to use their product knowledge when they are told to purchase a product for a frequent user than for an infrequent user with fewer needs. In another study, Maheswaran & Sternthal (1990) proposed that the absence of attribute information would prevent knowledgeable consumers from using their knowledge to evaluate a product. These findings support the idea that the use of knowledge might be context dependent.

Drawing on adaptation-level theory (Helson, 1964), differences in quality evaluations for the same product would be a result of an interaction between the contextual cues and organic cues that are present at the time of judgment. As discussed previously, low knowledgeable consumers are most likely to use price as an indicator of product quality, whereas moderate knowledgeable consumers depend the least on price and rely on their product knowledge (e.g., intrinsic cues) to infer quality. High knowledgeable buyers tend to use price when they believe (or know) there is a positive price-quality relationship in the marketplace. However, the use of product knowledge (or price) cues may also depend on the relative position of a target product's price within a set of alternative prices (the price context) in which a target product is evaluated. When the target product appears at the higher end within a set of prices, the context prompts a concern about monetary sacrifice. When the target product appears at the lower end within a set of prices, the context prompts a concern about the product quality.

For low knowledgeable consumers, it is proposed that higher-end prices would increase their use of price in quality evaluations. That is, prices are more likely to be used as quality indicators than as sacrifice indicators when a target product is perceived to be expensive relative to alternatives.

For moderate knowledgeable consumers, price context may not have a significant influence on their use of price or other extrinsic cues. This is because they are more likely to rely on their product knowledge (intrinsic cues) in quality evaluations.

For high knowledgeable consumers, it is proposed that lower-end prices would increase their use of product knowledge (intrinsic cues) in quality evaluations. That is, prices are more likely to be used as quality indicators than as sacrifice indicators when a target product is perceived to be expensive relative to alternatives.

To summarize, for consumers with low and high prior product knowledge, the relative position of a target product's price would affect their quality perceptions through influencing how much weight they put on the price-quality or price-sacrifice relationship. Generally, the price-quality relationship will be weighted more (less) than the price-sacrifice relationship when the target price is at the higher-end (lower-end) within a set of prices. Price context will not significantly affect the use of price as an indicator of quality for moderate knowledgeable consumers.

Therefore:

H4: Low knowledgeable consumers are more likely to use price as an indicator of quality when a target product's price is at the higher-end than at the lower-end within a set of alternative prices.

H5: Moderate knowledgeable consumers are less likely to use price as an indicator of quality no matter whether a target product's price is at the higher-end or lower-end within a set of alternative prices.

H6: High knowledgeable consumers are more likely to use price as an indicator of quality when a target product's price is at the higher-end than at the lower-end within a set of alternative prices.

In sum, it is argued that the U-shaped relationship between the use of price and the level of prior product knowledge is only limited to the low-price context.

### **3. Method**

#### *3.1 Overview*

This section presents the research design and methodology for (a) presenting preliminary evidence about the hypotheses; (b) making decisions about the operational details for the main study. Using knowledge measures adapted from past research, preliminary study 1 examined the interaction effect of price context (high vs. low) and prior product knowledge on consumers' quality evaluations. Two pretests were conducted to make decisions about the design of the main study. Pretest 1 was used to determine the price acceptability range, the high and low-price context, and the appropriate attributes to be used in the main study for the two products selected from pretest 1. Additionally, pretest 2 identified effective knowledge measures for the selected product to be used in the main study.

#### *Preliminary Study 1*

The primary objective of preliminary study is to pretest the proposed interaction effects of price context (the relative position of the target product's price) and prior product knowledge on individuals' quality judgments using pre-established knowledge measures. This section provides details of the experiment used to test these hypotheses. This study replicates Rao & Monroe (1988)'s experiment with an extension that the target product is evaluated in two different price contexts.

#### **Stimuli**

Previous research has used automobiles (Johnson & Russo, 1984), microwave ovens (Park & Lessig, 1981), and women's blazers (Rao & Monroe, 1988; Rao & Sieben, 1992) in prior product knowledge research. A woman's blazer was selected to be the tested product in this research because this product allowed for the use of students subjects to represent low through high knowledge (Rao & Monroe, 1988).

An examination of prices for women's blazers at major online retailers (e.g., Amazon and Overstock) was used to determine price range of blazers. These prices ranged from \$9 to \$260. Using median split, prices lower than \$120 formed a low-priced context, and those higher than \$120 formed a high-priced context. A \$109.99 blazer was selected as a target product. A low-priced context used the target product along with three other blazers priced at \$19.99, \$49.99, and \$79.99 while in a high-priced context, the target product accompanied blazers priced at \$139.99, \$179.99, \$209.99. Hence each context consisted of four alternatives that formed an information booklet. The order of presentation of these blazers in each booklet was randomized. Since the focus was on price context, brand name was

not mentioned in this study.

### Procedure

Sixty-one undergraduate students (60% female, average age 22.1 years) participated in the study for extra credit. At the beginning of the study, participants were randomly assigned to either price contexts (low vs. high) and responded to questions on the target product. A 17-item scale ( $\alpha=.70$ ) adapted from prior research (Rao & Monroe, 1988; Rao & Sieben, 1992) was used to measure participants' prior product knowledge. This scale included questions to assess the subject's knowledge of attributes (e.g. "Wool flannel is a woolen fabric"), attribute-performance relationships (e.g. "Hand tailoring is an indication of a better fit and construction in a blazer"), brand and store information (e.g. "Benetton sells a large variety of tailored blazers"), purchase and use experiences, and self-perceptions of familiarity. Questions were weighted on the degree of difficulty answering the questions (Rao & Monroe, 1988; Rao & Sieben, 1992). As it is shown in Appendix 1, the maximum score of prior knowledge is 49.

Then participants were asked to imagine that they were planning on purchasing a blazer and were provided with descriptions of the target product and other available options. Participants were told to evaluate the target product with alternative products together and later they would be asked questions related to the target product. After reviewing the given information, participants responded to the target product's quality, measured by items like "I believe this blazer is of good quality" (-5 = strongly disagree; 5 = strongly agree), for the target product (\$109.99). Participants were allowed to go back to the stimuli descriptions when answering questions.

### Results

The independent variable, prior knowledge, scored on the scale ranged from 6 to 35. Following Rao & Monroe (1988), the participants' prior knowledge scores were arranged in ascending order ( $M = 22.13$ ;  $SD = 6.43$ ). One-third of participants, scoring the highest on this sort were classified as high knowledge participants ( $M = 28.38$ ;  $SD = 2.71$ ; scores of 25 - 35), while those in the bottom third were classified as having low prior knowledge ( $M = 14.65$ ;  $SD = 4.18$ ; scores of 6 - 20). The remaining participants were classified as having moderate prior knowledge ( $M = 23.05$ ;  $SD = 1.50$ ; scores of 21 - 25). There were significant differences in prior knowledge among these three groups ( $F(2, 58) = 108.60$ ,  $p < .001$ ).

The ANOVA (Figure 1) showed an interaction effect of product context and prior knowledge on consumers' perceptions of product quality ( $F(5, 55) = 3.72$ ,  $p < .01$ ,  $\eta^2 = .25$ ). Overall, the perceptions of quality were significantly different between the high-priced and the low-priced contexts ( $t(59) = 2.20$ ,  $p < .05$ ,  $r = .28$ ). There was a significant main effect of the context on subjects' quality judgments: the quality of the target product was rated higher in the low-priced context than in the high-price context ( $M$  (low price context) = 1.8 vs.  $M$  (high price context) = .74;  $t(59) = 2.20$ ,  $p < .05$ ).

Contrasts showed that in the low-priced context, participants with low prior knowledge had higher perceptions of quality ( $F(2, 27) = 11.21$ ,  $p < .001$ ) than those with moderate and high (see Table 1 for cell means). In the high-priced context, a reverse pattern of results was observed. Results indicated that low-priced context resulted in higher perceived quality for participants with low ( $M$ (low priced context) = 3.33 vs.  $M$ (high priced context) = .45,  $F(1, 18) = 11.41$ ,  $p < .05$ ) and high ( $M$ (low priced context) = 1.80 vs.  $M$ (high priced context) = .82,  $F(1, 19) = 4.53$ ,  $p < .10$ ) prior knowledge, but not for those with moderate product knowledge ( $M$ (low priced context) = .55 vs.  $M$ (high priced context) = 1.00,  $F(1, 18) = .38$ ,  $p > .10$ ). Planned contrast also revealed that there was a significant quadratic trend between prior knowledge and the use of price ( $F(1, 27) = 11.21$ ,  $p < .001$ ,  $\eta^2 = .45$ ) in quality evaluations only in the low-priced context, not in the high-priced context ( $F(1, 28) = .18$ ,  $p > .05$ ,  $\eta^2 = .01$ ). This indicated that prices of alternatives in the context influenced consumers' quality perception more in the low-priced than the high-priced context.

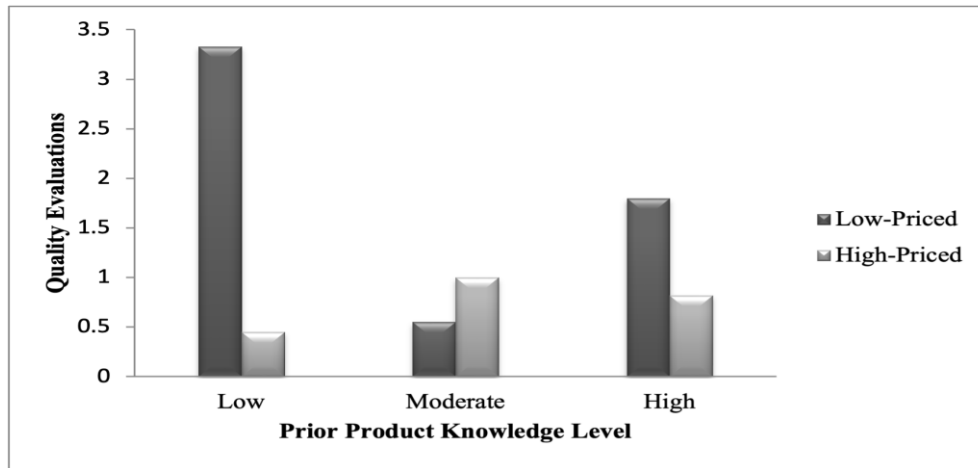


Figure 1. Price Context and Prior Knowledge---Blazer

In sum, when assessing product quality the prices of alternatives in the two contexts had least impact on consumers with moderate prior knowledge while they had the largest impact on consumers with low prior knowledge. Furthermore, high prior knowledge consumers were affected by the two contexts to a lesser degree than those with low prior knowledge.

Table 1. Women’s Blazer Quality Evaluations

Knowledge level	Context	Mean	SD	N
Low	Low-Priced	3.33	1.23	9
	High-Priced	.45	2.30	12
Moderate	Low-Priced	.55	1.44	8
	High-Priced	1.00	1.87	7
High	Low-Priced	1.80	1.23	13
	High-Priced	.82	2.04	12

*Pretest 1*

A pretest was conducted to select the appropriate products that will be used in the main study. Two products: bedding sets and hiking shoes, were selected for further consideration. Product selection was based on consumers’ subjective prior knowledge with the product and the impact of gender differences. The target product should have a moderate average familiarity with larger variances so that consumers can be differentiated based on their product knowledge levels. Besides, there should be no significant differences between male and female subjects in terms of their self-reported familiarity so that confounding effects of gender can be ruled out in the experiment. After the selection of target products, the next step was to determine suitable prices and attributes for these selected two products.

*Procedure*

Participants were told to evaluate the target product (bed set/ hiking shoes) in a store. In order to determine the two products’ acceptable price range, participants provided answers to questions like “At what price would you consider this bed set (hiking shoes) to be so inexpensive that you would have doubts about its quality?” “At what price would you begin to feel that this bed set (hiking shoes) to be so expensive but worth buying?”, and “At what price would you consider this bed set (hiking shoes) to be so expensive that regardless of its quality you would not find it worth buying.” Participants were also asked to indicate the price range that he/she would consider most acceptable. After that, participants were asked to rate the attributes that they considered important when making product quality evaluations. A list of attributes for bedding sets (e.g., 100% cotton, thread count, and color etc.) and hiking boots (e.g., cushioning, breathability, and waterproof etc.) were adapted from Consumer Reports. Respondents were asked to rate the importance of each attribute when they are making quality evaluations on a scale of 1 (extremely



unimportant) to 7 (extremely important). Twenty-eight undergraduate students (48% female, average age = 21.2) participated in this pretest for extra credit.

### Results

Overall, the lower limit of price acceptability varied from \$10 to \$800 for bedding sets and from \$10 to \$220 for hiking shoes. Similarly, the upper limit of price acceptability varied from \$30 to \$2,500 for bedding sets and from \$35 to \$500 for hiking shoes.

In the lower end of acceptable price range, the modal value for “minimum price to pay” was \$30 and for “the price so inexpensive that would cause quality concern” was \$20. The modal value was \$30 for hiking shoes for these two items.

In the upper end of acceptable price range, a \$100 bed set may be considered “expensive but worth buying”, and a \$200 bed set may be considered “expensive but not worth buying”. Similarly, the results suggested that \$100 hiking shoes were “expensive but worth buying”, and \$200 may be “too expensive but not worth buying”.

The modal value for the average price to pay was \$90 for bedding sets and \$95 for hiking shoes separately. Hence, \$20 to \$90 formed a low price range and \$90 to \$150 formed a high price range for bedding sets; \$30 to \$95 formed a low price range and \$95 to \$160 formed a high price range for hiking shoes.

An examination of attribute importance suggested that “Quilted pattern” attribute should be dropped for bedding sets due to low ratings. Attributes that were rated fairly important were: “Machine washable”, “Durable”, and “Softness”. Attributes that were moderately important in quality evaluations were: “100% cotton”, “Thread count”, and “Weight”.

An examination of attribute importance suggested that “Design” and “Color” should not be pursued further for hiking shoes due to low ratings. Attributes that were significantly important were: “Cushioning”, “Supportive”, “Durable”, “Ankle support”, and “Water proof”. “EVA mid-sole” was considered moderately important.

### Summary

The result from pretest 1 serves as a basis for the design of the main study. It was decided that low and high price range for the two products were:

Bedding sets: \$20 to \$90 (low price range) and \$90 to \$150 (high price range)

Hiking shoes: \$30 to \$95 (low price range) and \$95 to \$160 (high price range)

The attributes that were important in quality evaluations for the two products were:

Bedding sets: “Machine washable”, “Durable”, “Softness”, “100 cotton”, “Thread counts, and “Weight”

Hiking shoes: “Cushioning”, “Supportive”, “Durable”, “Ankle support”, “Water proof” and “EVA mid-sole”

Now that the attributes and price range have been identified, the next step is to create valid knowledge measures for the two selected products.

### Pretest 2

The objective of this study was to create valid measures for consumers’ prior product knowledge. Prior knowledge is defined the accurate amount of information held in memory about product alternatives (objective knowledge) as well as consumers’ self perception of their product knowledge (Rao & Monroe, 1988).

### Procedure

Brucks (1985) suggests that a measure for prior knowledge should include eight dimensions that help in discriminating among people’s knowledge structures. Based on the taxonomy suggested by Brucks (1985) and the product specific scale used by Rao & Monroe (1988), a 21-item scale was developed to measure individuals’ objective knowledge of bedding sets; a 20-item scale was developed to measure individuals’ objective knowledge of hiking shoes. The scales were developed on the basis of input provided by experts on the two products’ quality and assessed the subjects’ knowledge of attributes, attribute-performance relationships, brand and store information.

Subjective knowledge was measured by two items: “Regarding bedding sets/hiking shoes, would you consider yourself? (1 = extremely unfamiliar; 7 = extremely familiar)” and “How knowledgeable to you feel about bed sets/hiking shoes when making decisions to purchase? (1 = not at all knowledgeable; 7 = very knowledgeable)”. Past purchase experience was also measured by ownership and purchase recency. Each objective knowledge question was

assigned one point, which resulted in maximum 21 for bedding sets and 20 for hiking shoes.

Price-quality relationship was measured by one item, “the higher the price of this product, the better the quality in the market”. Thirty-six undergraduate students (49% female, average age=20.7) participated in this pretest for extra credit.

### Results

The total score of objective knowledge ranged from 9 to 21 for bed sets and from 4 to 18 for hiking shoes (one point assigned for each item). Additionally, hiking shoes ( $M=11.67$ ,  $SD=3.83$ ) had larger variance over bed sets ( $M=14.89$ ,  $SD=3.02$ ) in terms of objective knowledge.

The two items that measure subjective knowledge were significantly correlated (bed sets  $r=.792$ ,  $p<.01$ ; hiking shoes  $r=.942$ ,  $p<.01$ ). Hiking shoes ( $M=3.95$ ,  $SD=1.62$ ) had larger variance over bed sets ( $M=4.19$ ,  $SD=1.28$ ) in terms of subjective knowledge.

Additionally, both products were perceived to have a positive price-quality relationship in the market. One-Sample T-test showed that the cell means for both product are significantly larger than 4 (Bed set:  $t(35)=3.584$ ,  $p<.01$ ; hiking shoes:  $t(35)=4.419$ ,  $p<.001$ ). The results from this pretest indicated that hiking shoes should be selected over bed sets due to larger variances in both objective and subjective knowledge.

### Summary

Preliminary study 1 provided initial support for the proposed interaction effects of price context (low vs. high) and prior product knowledge. Based on the results of two pretests, hiking shoes were selected as the target product for the main study due to larger variances in both objective and subjective knowledge. In the main study, the target product was evaluated either in a low (\$30 to \$95) or high (\$95 to \$160) price context.

### Main Study

The objective of this study was to test the interaction effects of high vs. low price context and prior knowledge on consumers' product evaluations. Past studies suggested that brand name influences product quality perceptions and may interfere with price level (Miyazaki, Grewal, & Goodstein, 2005; Rao & Monroe, 1989). Since the primary purpose was to examine the impact of price context, brand name was not provided in this study.

### Subjects and Design

One hundred and eighty-three undergraduate students (55% female; average age: 21.56; age range: 18-35) enrolled in an introductory marketing class participated in the study for extra credit. It was a 2 (price context: low vs. high) by 3 (prior knowledge: low, moderate, high) between-subjects research design.

### Stimuli

In this main study, the product stimulus included price information and other features of hiking shoes. Price context was manipulated at two levels: low and high. Specifically, participants were provided with product image, five pieces of product attribute information including price, and three alternative products. The target product (\$95.99) was presented along with three alternative products in either a low-priced context (\$35.99, \$55.99, \$75.99) or a high-priced context (\$115.99, \$135.99, \$155.99). They were asked to indicate their perceptions of monetary sacrifice ( $\alpha=0.8$ ), product quality, ( $\alpha=0.89$ ) and value judgment ( $\alpha=0.83$ ).

### Procedure

Participants were recruited using an email announcement and the study was conducted in a behavioral lab. Upon arrival to the lab, each subject was provided with a booklet with a cover story about purchasing a pair of hiking shoes for a trip to Alaska. After reading the cover story, subjects were told to respond to the questions as if they were in the market for hiking shoes. The booklet had four sections. In the first section, subjects responded to questions on their purchase experiences and self-perceived product knowledge of hiking shoes. After finishing all the questions in this section, subjects were presented with the descriptions of four pairs of hiking shoes that they may find at their favorite store. They were told to evaluate each option and then respond to measures of the three dependent variables and manipulation checks. In the third section, subjects were asked to answer questions on hiking shoes knowledge measures that were pretested previously. In the fourth section, subjects were given two minutes to write down all thoughts and ideas that they experienced while doing the task. They were asked to report all thoughts no matter how simple, complex, relevant, or irrelevant they seem to be. Following this open-ended question, demographic information such as gender and age were collected at the end of the study.

### Manipulation check

The price context was manipulated by two levels: low vs. high. Two measures, “I think the products offered in this store are expensive (1=strongly disagree; 7=strongly agree)” and “The prices of the product alternatives I have seen are high (1=strongly disagree; 7=strongly agree)”, were used to determine the effectiveness of this manipulation. There was a significant difference between perceptions of the two price contexts ( $M_{\text{low priced context}} = 4.25$ ,  $SD_{\text{low priced context}} = 2.23$  vs.  $M_{\text{high priced context}} = 5.46$ ,  $SD_{\text{high priced context}} = 1.93$ ,  $F(1, 181) = 11.787$ ,  $p < .01$ ,  $\eta^2 = .061$ ). Subjects were also asked to perform a recognition test on the price for the target product’s price as well as the other three hiking shoes. All the subjects were able to successfully recall the price for the target product and recognize the prices for the other three hiking shoes.

### Results

The objective prior knowledge scored on the scale ranged from 4 to 19 (maximum 19). The participants’ objective prior knowledge scores were arranged in ascending order ( $M = 11.87$ ,  $SD = 3.35$ ). One-third of subjects, scoring highest on this sort were classified as high knowledge consumers ( $M = 15.94$ ,  $SD = 1.58$ , scores of 14-19), while those in the bottom third were classified as having low prior knowledge ( $M = 8.32$ ,  $SD = 1.62$ , scores of 4-10). The remaining participants were classified as having moderate prior knowledge ( $M = 11.92$ ,  $SD = .90$ , scores of 11-13). There were significant differences in prior knowledge among these three groups ( $F(2, 180) = 436.16$ ,  $p < .001$ ).

Results from the analysis of variance for three dependent variables showed that the main effect due to price context was significant for perceived sacrifice, quality perception, and perceived value. Generally, the target product was perceived to have higher monetary sacrifice, higher quality, and higher value when the target product was evaluated in a high-priced context.

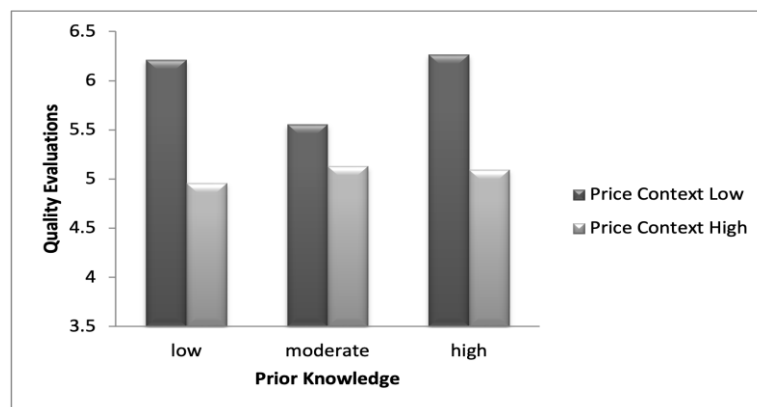


Figure 2. Price Context and Prior Knowledge---Hiking Shoes

The ANOVA showed a significant interaction effect (Figure 2) of prior knowledge and price context on consumers’ quality evaluations ( $F(2,177) = 3.702$ ,  $p < .05$ ,  $\eta^2 = .241$ ). Planned contrast also revealed that there was a significant quadratic trend between the use of price and prior product knowledge ( $t(89) = 3.494$ ,  $p < .01$ ) on quality evaluations in the low-priced context, not in the high-priced context ( $t(88) = .626$ ,  $p > .10$ ). This indicated that prices of alternatives in the context influenced consumers’ quality perception more in the low-priced than in the high-priced context (see Table 2 for cell means).

Table 2. Hiking Shoes Quality Evaluations

<b>Knowledge</b>	<b>Price</b>	<b>Mean</b>	<b>SD</b>
low	low	6.21	.77
	high	4.96	1.16
	Total	5.56	1.17
moderate	low	5.56	.85
	high	5.13	1.02
	Total	5.34	.96
high	low	6.26	.57
	high	5.09	1.17
	Total	5.72	1.07
Total	low	5.99	.81
	high	5.06	1.10
	Total	5.53	1.07

The interaction effect between price context and prior product knowledge was not significant for both perceived sacrifice ( $F(2,177) = .609, p > .10$ ) and perceived value ( $F(2, 177) = .224, p > .05$ ). However, the planned contrast revealed a significant quadratic relationship between the use of price and prior product knowledge in consumers' value perceptions ( $t(89) = 1.631, p < .05$ ) when the target product is presented in a low price context, not in a high price context ( $t(88) = -.476, p > .10$ ).

#### Summary

The results from this study provided support for the hypotheses that (a) low knowledgeable consumers are more likely to use price as an indicator of quality when a target product's price is at the higher-end than at the lower-end within a set of alternative prices; (b) moderate knowledgeable consumers are less likely to use price as an indicator of quality no matter whether a target product's price is at the higher-end or lower-end within a set of alternative prices; (c) high knowledgeable consumers are more likely to use price as an indicator of quality when a target product's price is at the higher-end than at the lower-end within a set of alternative prices. The results supported the proposed interaction effects of price context and prior knowledge on consumers' quality evaluations. Generally, prior product knowledge is more likely to be used to evaluate product quality when the target product appears to be cheapest.

This study showed that consumers with low prior knowledge relied most on price information in the context to form quality judgments, while moderate level knowledge consumers seemed to process information more systematically and depend least on the contextual information. Interestingly, consumers with high prior knowledge used prices in the context to help assess a product's quality when there were lower prices in the context (low-price context). This is probably because price information was easier to interpret and process.

Although the target product was perceived to be more expensive in the low-price context than it was in the high-price context, prior product knowledge did not affect the perception of sacrifice in this study. Interestingly, a significant quadratic pattern between the use of price and prior product knowledge was observed for perceived value in the low-price context. This pattern is similar to the quadratic pattern for perceived quality. Perceived value is considered as a tradeoff between perceived quality and perceived monetary sacrifice. It is then indicated that the scale for perception of value in our study was mainly anchored on perception of quality.

## 4. Conclusions

### 4.1 General Discussion

The main study provided evidence that price context and prior product knowledge will interact with each other to affect consumers' product evaluations. The use of product knowledge depends on the price context in which the target product was evaluated. The major findings can be summarized as follows:

The use of price in quality evaluations depends on consumers' prior product knowledge. However, the use of product knowledge may also be context driven and depend on the price context.

Consumers with low prior knowledge relied most on price information in the context to form quality judgments,

while moderate level knowledge consumers seemed to process information more systematically and depend least on the contextual information. Interestingly, consumers with high prior knowledge, used prices in the context to help assess a product's quality given that price information was easier to interpret and process but only when there were lower prices in the context.

These findings were consistent with past research (Rao & Monroe, 1988; Rao & Sieben, 1992) in that the relationship exhibited between prior knowledge and relative attention paid to extrinsic information is U-shaped. However, the interaction effects of evaluation context and prior knowledge observed in this study further reveals that the quadratic trends between prior knowledge and use of extrinsic information were limited only to the low-priced context. This result indicates that the activation of knowledge structures is context driven. Past research has suggested that context would impact consumers' memory of previous evaluations (Carlston, 1980; Kardes, 1986). This research contributes to this literature stream by showing that the use of price cues to infer quality, was influenced by not only prior knowledge but also the relative prices in the context. Consumers tend to use price cues in quality evaluations only when the context suggests a positive price-quality relationship. This was probably because prices at the ends of price range disproportionately influence consumers' judgments about a product (Monroe, 2003) and consumers are more likely to be concerned about the quality of the products at the lower end of price range. At the higher end of the price range consumers are more concerned about the monetary sacrifice required to purchase the product (Monroe, 2003) and hence price was less likely to be used to infer product quality in a high-priced context.

#### *4.2 Contributions*

This research contributes to the prior knowledge literature by demonstrating that the use of product knowledge might be context driven. It also contributes to the pricing literature in further understanding how consumers form quality and value evaluations. Past research indicated that there is a U-shaped relationship between the use of price and the level of prior product knowledge. This research further demonstrates that this quadratic relationship is only limited to a low-price context. Managerially, consumers may use their product knowledge differently. Retailers can effectively signal their product quality through price by arranging the order/availability of their product alternatives.

#### *4.3 Limitations and Future Research*

The major limitation of this research is that prior product knowledge was measured, not manipulated. Thus, potential confounding factors such as motivation and level of involvement cannot be ruled out in the experimental results.

Another limitation is that the knowledge measure used in the main study was mainly objective measures. As it is mentioned earlier, a non-significant correlation between subjective knowledge and objective knowledge was observed. However, what buyers believe they know about the product category should depend on what they actually know. Future research should explore the relationship between subjective and objective knowledge and thus help to create more reliable knowledge measures.

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**Data sharing statement**

No additional data are available.

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### Appendix 1. Blazer Prior Knowledge Measure

Items	Appropriate answer	Weight
Hopsacking is a fabric with a twill weave	No	4
I would expect to spend about \$150 for a medium- priced woman's blazer	Yes	2
Wool flannel is a woolen fabric	No	3
Fitting will influence the durability of a blazer	Yes	1
A wool gabardine fabric will become shiny with wear and time	Yes	4
Overall construction is better in higher-priced blazers	No	1
Hand tailoring is an indication of a better fit and construction in a blazer	No	2
Buttons sewn on with a shank or stem provide more durability in heavier fabric	Yes	4
A major difference between blazers from the low and high price ranges is in the fabric	Yes	1
Benetton sells a large variety of tailored blazers	No	3
Generally, cashmere fibers are less expensive than Shetland wool before they are made into a fabric	No	2
Anne Klein II blazers are generally priced at about \$150	No	3
I evaluate the pitch of a sleeve before purchasing a blazer	Yes	3
I would compare many blazers before I bought one	Yes	4
I own a woman's blazer	Yes	1
I have bought a woman's blazer (if not for myself, for a friend)	Yes	3
Regarding women's blazers, would you consider yourself	1= extremely unfamiliar 7= extremely familiar	