

An economic mystery at the all-you-can-eat buffet

Warm up: Imagine you're at your favorite restaurant and they introduce an all-you-can-eat option. How would you decide whether to choose this option or order as usual? What factors would influence your decision?

Listening: Link to audio [\[HERE\]](#)

Transcript:

JUANA SUMMERS, HOST:

Our colleagues at Planet Money like to look for economics in the **darnedest** places. Recently, they went to Las Vegas to explore an economic mystery at - get this - the all-you-can-eat buffet. Erika Beras and Jeff Guo have the story.

ERIKA BERAS, BYLINE: That mystery is called the flat-rate pricing bias.

JEFF GUO, BYLINE: And to explore it, we met up with Eric Chiang. He's an economics professor at the University of Nevada, Las Vegas and a buffet **connoisseur**. Eric took us to one of his **go-to spots**.

ERIC CHIANG: OK, let's go back in the main entrance here.

BERAS: According to legend, the all-you-can-eat buffet was born in Las Vegas. And this all-you-can-eat pricing model - the economics term for it is flat-rate pricing, where you pay one price to use a service as much as you want.

CHIANG: For example, your wireless plan - you may have all you can text and talk on your plan.

GUO: Yeah, unlimited.

CHIANG: Unlimited talk and text. Absolutely.

BERAS: You see flat-rate pricing in a lot of places - public transit, gyms, streaming services and, of course, buffets.

GUO: So we're only paying \$17.95?

BERAS: Lucky us.

GUO: But the mystery with flat-rate prices is that in a lot of cases, it's actually a bad deal. For instance, studies have shown that many people would save money if they switched their cellphones from unlimited data plans to buying data **a la carte**.

BERAS: So why do people **gravitate** toward flat-rate pricing? What explains the flat-rate pricing bias? Economists have come up with three reasons.

GUO: First is the idea that people are just **irrational**. They overestimate how much food they're going to eat at the buffet or how many cellphone minutes they're going to use each month.

BERAS: But Eric says there's another explanation - a more rational one.

CHIANG: Consumers don't like to feel like every unit of a product they consume, they're going to be charged for. This is often called, like, the taxi-meter effect, where if you sit in a taxi, watching that meter keep ticking up - it has some really awful feeling.

GUO: So the idea is that people are willing to pay a premium to avoid that awful feeling, to avoid the pain of the taxi-meter effect.

BERAS: And related to that is the third explanation for why people **opt for** flat-rate pricing. It has to do with something that economists call the insurance effect. Think of it this way - if you're not sure how much data you're going to use in a month, an unlimited data plan saves you from the risk of an enormous surprise, unexpected bill. And at a buffet, the flat-rate pricing gives you the freedom to try as many new things as you want.

GUO: Because the cost of taking a risk at a buffet is...

CHIANG: Zero. If I don't like it, you just don't eat it.

GUO: Economists say that people are attracted to flat-rate pricing for a mix of all three of these reasons - the taxi-meter effect, the insurance effect and because they sometimes overestimate how much they're actually going to consume.

Chicken cassoulet.

BERAS: Ooh.

GUO: Julia Child, **eat your heart out**.

BERAS: If you want that, it may not be there by the time you come back for plate three.

CHIANG: I think it's worth trying.

Words and phrases:

1. **Darndest:** (Adjective) Used to emphasize the surprising or difficult nature of something.
Korean: 가장 놀라운
2. **Connoisseur:** (Noun) An expert judge in matters of taste.
Korean: 감정가
3. **Go-to spot:** (Noun phrase) A popular or favored place for a specific activity or purpose.
Korean: 단골 장소
4. **A la carte:** (Adjective, Adverb) Referring to food that can be ordered as separate items, rather than part of a set meal.
Korean: 일품 요리로
5. **Gravitate:** (Verb) To move toward or be attracted to a place, person, or thing.
Korean: 끌리다
6. **Irrational:** (Adjective) Not logical or reasonable.
Korean: 비합리적인
7. **Opt for:** (Verb phrase) To choose or select from a range of possibilities.
Korean: 선택하다
8. **Eat your heart out:** (Idiomatic phrase) Used to express the idea that someone will feel great envy or regret.
Korean: 부러워 죽겠다

Comprehension Questions:

1. What is the economic mystery explored in this story, and where did the reporters go to investigate it?
2. How is the concept of "flat-rate pricing" defined, and where is it commonly found in various services?
3. According to the story, why might flat-rate pricing sometimes be disadvantageous for consumers?
4. What are the three main explanations provided by economists for people's preference for flat-rate pricing?
5. How does the concept of the "insurance effect" relate to the attraction of flat-rate pricing?

Discussion Questions:

1. Have you ever experienced flat-rate pricing in services like buffets or cell phone plans? How did you feel about this pricing model?
2. Which of the three reasons presented for the preference for flat-rate pricing do you think plays the most significant role in people's decisions? Why?
3. Do you believe that flat-rate pricing is a more rational choice in some situations, even if it may cost more in the long run?
4. Discuss the idea of the "taxi-meter effect." Have you ever felt uncomfortable watching the cost of a service increase in real time? How did it make you feel?
5. Do you think businesses use flat-rate pricing to attract more customers, even if it may not be the most cost-effective option for consumers? What are the potential pros and cons for businesses employing this pricing model?