Sticky price for declining risk? The case of cancellation premia in the hotel industr

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Using data from about seven million hotel room postings in France and the UK, we document that rather than smoothly decreasing to zero, cancellation premia remain positive at roughly 10% to 15% of the full price until two days before the stay. A model where travelers have different willingness to pay and some overestimate the probability to cancel their trip explains this price-setting mode more consistently than alternative interpretations. We denote these strategies as a form of naivetè-based price discrimination.

We also identify conditions under which these strategies are exploitative of certain consumers, or are welfare-enhancing instead.