THE UNIVERSITY OF CHICAGO
ECONOMICS FOR EVERYONE

80 YEARS of FEE
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Perfect Pairings: Economics in Action

Is Oxygen Included? Pricing and Behavioral Economics

STUDENT MATERIALS

About This Lesson

This lesson pairs a concept-driven article from [University of Chicago's Econ4Everyone] with structured economic reasoning activities. You will read, think, decide, and defend, moving from a real-world economic puzzle to a fully justified position of your own.

Your learning journey today:

- Phase 1 — The Economic Puzzle: Engage with unbundling and the noticeability (salience) principle
- Phase 2 — The Decision Lab: Investigate real airline pricing data layer by layer
- Phase 3 — Decide and Defend: Use Structured Academic Controversy to reason through pricing transparency today

Phase 1 The Economic Puzzle | 15–20 minutes

Hook · Article Reading · Concept Introduction

FIRST REACTIONS

Before reading anything, answer this question: A $199 plane ticket turns into a $340 charge by checkout. Is that a rip-off or a fair deal?

Your answer:

KEY ECONOMIC CONCEPTS

Use these terms to explain what you observe:

Concept	Plain-Language Definition
Unbundling	*A company splits what was once sold as one all-inclusive product into separate components, each priced and purchased on its own — like a base fare, a seat, and a checked bag.*
The Noticeability Principle (Salience)	*People weigh the most visible piece of information most heavily. The advertised base fare is what you compare across airlines; fees revealed later carry far less psychological weight, even when they add up to more.*
Shrouded Attributes	*Costs or features that exist but aren't obvious to the consumer at the moment of the initial decision. Firms have little incentive to reveal them first, since doing so makes them look more expensive than competitors who still shroud theirs.*

Consumer Surplus	*The gap between the most a buyer is willing to pay and what they actually pay. It shrinks whenever a seller can price closer to a buyer's true maximum valuation.*
Sunk Cost Fallacy & Escalation of Commitment	*The tendency to keep investing time or money into a choice because of what's already been spent, rather than judging it fresh based on what it will cost going forward.*

GUIDED READING

Focus question:

For every effect of unbundled pricing you read about ask yourself: is this "seen" or "unseen"? Mark each one.

While reading, annotate the article: circle economic choices, underline surprising moments, and put a "?" next to anything that puzzles you.

AFTER READING: QUICK COMPREHENSION CHECK

1. What is the central economic tension that unbundled pricing creates for consumers trying to compare travel costs?

2. Which key economic concept from the table above best explains why the base fare grabs your attention while the fees don't? Why?

3. What surprised you most about what the data actually showed?

Phase 2 The Decision Lab | 20–25 minutes

Applied Activity — Simulation, Scenario, or Choice Task

YOUR ROLE AND SITUATION

You are a consumer economist examining pricing data from the U.S. airline industry between 2006 and 2024. **Your task**: build the most complete picture of what unbundled pricing actually did to everyone affected. You will receive data in layers. After each layer, record what it adds to your picture before the next one is revealed.

DATA LAYER 1 — Advertised Base Fares

Since Spirit Airlines pioneered unbundled pricing in 2006, average advertised base fares have fallen substantially, and low-cost carriers now regularly list fares under $100 for routes that once cost several times that amount fully bundled. Reference the data provided:

What is "seen" in this data?

What is "unseen" or missing from this data alone?

DATA LAYER 2 — Ancillary Fees

Airline ancillary revenue — bag fees, seat selection, change fees, and similar charges — has grown into a multi-billion-dollar segment of industry revenue since 2006, rising far faster than base fares have fallen.

Does this change your picture? How?

Who gained? Who lost? Are these the same people?

DATA LAYER 3 — Total Price Paid

Research on drip pricing shows consumers systematically underestimate total cost when a price is revealed in stages. By the time all fees are added, many unbundled tickets cost close to, or more than, a comparable bundled fare from a full-service carrier.

Who benefited from the ability to pick and choose which add-ons to pay for? Are they in the data we've seen so far?

What does this add to the "unseen" column of your picture?

DATA LAYER 4 — Regulatory Response

In 2024, the U.S. Department of Transportation finalized a rule requiring airlines and ticket agents to disclose baggage, change, and cancellation fees upfront, citing years of consumer complaints about fees revealed only late in the booking process.

Why does this complicate the "unbundling is a win for consumers" narrative from Layer 3?

SEEN VS. UNSEEN AUDIT

Complete this organizer using all four data layers. Be specific.

THE SEEN (what the data shows directly)	THE UNSEEN (implied but not directly visible)

THE DISCLOSURE RULE MOMENT

In 2024, the U.S. Department of Transportation required airlines to disclose baggage, change, and cancellation fees upfront, following nearly two decades of consumer complaints about drip pricing dating back to Spirit's 2006 unbundling launch.

Was the push for mandatory fee disclosure rational given the data available to regulators and consumers at the time?

What was the "unseen" they could not yet observe?

Phase 3 Decide and Defend | 25–30 minutes
Structured Academic Controversy (SAC)

What is Structured Academic Controversy?

SAC is a cooperative discussion protocol. The goal is to reason well. You will be assigned a position, present it fairly, listen carefully to the opposing view, then switch sides before forming your own final conclusion.

Why this matters: Arguing a position you don't personally hold forces you to understand it and that makes your final reasoning stronger.

THE CENTRAL QUESTION

Unbundled, drip-priced products are spreading well beyond airlines — into hotels, concert tickets, and streaming services. Should governments require companies to disclose the full, all-in price upfront, or should markets be allowed to determine their own pricing and disclosure practices?

ASSIGNED POSITIONS

Position A	Position B
Mandated Transparency *Drip pricing exploits a predictable feature of human cognition — attention to the first, most visible number. Governments have a responsibility to require all-in price disclosure so consumers can make truly informed comparisons, without banning unbundling itself.*	**Market-Determined Pricing** *The airline case shows unbundling made air travel affordable to millions of budget-conscious travelers. Disclosure mandates add compliance costs and can erase the flexibility that makes budget pricing possible, without guaranteeing firms won't shroud costs elsewhere.*

YOUR NOTE-CATCHER — ALL FOUR ROUNDS

Round 1	**Present — Your assigned position** Your group presents the best case for your assigned position. Focus on economic evidence and reasoning, not persuasion. While listening to Round 2, take notes below.	4–5 min

Key arguments we made for our position:

Round 2	**Listen — Opposing position** The other group presents. Listen without interrupting. Your goal: understand their strongest argument, not find its flaws.	4–5 min

The strongest argument from the other side:

Something I hadn't considered before:

Round 3	**Switch — Argue the other side** Now argue the opposite position as compellingly as you can. This is the intellectual pivot. Use the notes you took in Round 2.	6–8 min

What was hardest about arguing this position?

What surprised you about the strength of this side?

Round 4	**Synthesize — Drop assigned positions** As a group, work toward a reasoned conclusion. Develop a justified, nuanced stance supported by economic evidence and an acknowledgment of tradeoffs.	6–8 min

Our group's reasoned conclusion:

The key tradeoff we had to acknowledge:

Individual Written Closing

Complete this section on your own. It is your personal record of how your thinking developed today.

Central Question- ***Unbundled, drip-priced products are spreading well beyond airlines — into hotels, concert tickets, and streaming services. Should governments require companies to disclose the full, all-in price upfront, or should markets be allowed to determine their own pricing and disclosure practices?***

1. My final position on the central question: ***Use this sentence stem:***

"Before this lesson I thought ___ . After hearing the other side, I now think ___ because ___

2. The argument (from either side) that most changed or deepened my thinking:

3. One economic concept from today I could apply to a completely different real-world situation:

Concept:

New situation I'd apply it to:

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Perfect Pairings: Economics in Action

Is Oxygen Included? Pricing and Behavioral Economics

TEACHER GUIDE

Grades 9–12 / College Introductory | Approximately 60–75 Minutes

Lesson at a Glance

Article	"Perfect Pairing: Is Oxygen Included? Pricing and Behavioral Economics" — Carl Coates, E4E / UChicago, March 2026
Anchoring Frame	The Noticeability Principle & Shrouded Attributes — applied to airline drip-pricing data, then transferred to pricing practices across industries
Durable Principles	Unbundling, Salience/Noticeability, Shrouded Attributes & Information Asymmetry, Consumer Surplus, Sunk Cost Fallacy & Escalation of Commitment
The Hidden Lesson	Behavioral economics and market efficiency aren't opposites: unbundling can move prices closer to willingness-to-pay while still exploiting predictable cognitive biases — both are true at once
SAC Question	Should governments require all-in price disclosure, or should markets determine their own pricing and disclosure practices?
Assessment Signal	Look for "because" linked to a concept. That's economic reasoning. Everything else is preference.

Student Outcomes

By the end of this lesson, students will be able to:

- Name and apply the salience (noticeability) principle and the concept of shrouded attributes to a real-world pricing scenario
- Explain why the 2024 DOT disclosure rule was a rational consumer response given the information available at the time, and what that reveals about the limits of correcting shrouded pricing through disclosure alone
- Interpret layered pricing data by distinguishing what is directly visible (the base fare) from what is implied, delayed, or deliberately separated (fees)
- Identify how drip pricing and shrouded attributes affect consumers' ability to comparison shop, and explain how their absence from the advertised price shapes policy debates over disclosure
- Present and evaluate evidence-based arguments from assigned positions, including positions they personally disagree with

- Distinguish between a personal preference and an economically-reasoned position anchored in evidence and concept
- Demonstrate intellectual humility by revising their initial judgment in writing, naming the specific argument or data point that changed their thinking
- Transfer at least one economic concept from the airline pricing case to a different industry's pricing practices without being prompted

Phase 1 The Economic Puzzle | 15–20 minutes

Teacher Implementation Notes

THE HOOK

Present the hook question cold: “A $199 plane ticket turns into a $340 charge by checkout. Is that a rip-off or a fair deal?” Write the question on the board and give students 90 seconds to write a gut reaction before anyone speaks.

Teacher move: Cold-call 2–3 students. Write their exact words on the board verbatim — do not correct or validate. These words are data. You will return to them at the end of class and ask students to revise them. The revision is the learning arc made visible.

“It's a scam.” / “You get what you pay for.” / “It depends what's included.” / “Read the fine print next time.”

All of these are correct beginnings. None of them is a complete economic answer. That gap is what the lesson closes.

ARTICLE READING — GUIDANCE

The focus question should be narrow enough to make annotation manageable but open enough to surface multiple answers. Avoid questions that have a single correct answer, the goal is to generate diversity of observation, not compliance.

Recommended read format: independent silent reading (8–10 min) followed by 2-minute pair share on focus question responses. Cold call 2–3 pairs before moving to the concept table.

KEY CONCEPTS — TALKING POINTS FOR EACH

Introduce these after reading. Students who encounter the article first will attach vocabulary to something they’ve already experienced.

Unbundling

Talking point: Ask students: “Why does checking a 25lb bag cost $35, but flying your entire body costs $199?” The answer is that airlines split what used to be one price into many, and price each piece separately so travelers only pay for what they actually use.

Common student confusion: Students often assume unbundling is pure deception. Redirect: unbundling is a pricing structure, not a scam — it can genuinely lower costs for travelers with minimal needs. The behavioral effects come from how the pieces are revealed, not from the existence of the pieces themselves.

The Noticeability Principle (Salience)

Talking point: The base fare is the most visible number in the entire transaction — it's what's advertised, what's compared across search results, and what anchors the traveler's sense of the deal. The bag fee, seat fee, and change fee are all real costs, but none is the first thing anyone sees. Teaching students to notice this asymmetry is the lesson's deepest objective.

Common student confusion: Students conflate "less noticeable" with "small." Correct this directly: added fees can add up to more than the base fare itself — they just don't carry the same psychological weight because they arrive one at a time, later in the process.

Shrouded Attributes

Talking point: Ask students: "If competition is supposed to reveal the true cost of a product, why don't airlines lead with the total price?" Introduce Gabaix and Laibson's (2006) finding: even in a fully competitive market, no individual firm has an incentive to unshroud a fee first, because doing so mainly attracts price-savvy customers away from that firm's own listings and toward whichever competitor still shows a lower headline number.

Common student confusion: Students assume that if a market is competitive, hidden fees should get competed away automatically. Push back: "What happens to the first airline that raises its headline fare by adding all fees up front?" Answer: it looks more expensive than everyone else in search results, even if its final price is identical or lower once you unbundle elsewhere.

Consumer Surplus

Talking point: Consumer surplus is the gap between what you would have paid and what you did pay. Unbundling can increase it — for the traveler who wants only a seat, no bag, no extras — or shrink it, when firms use the structure to move the final price closer to each traveler's true maximum willingness to pay. Ask: "When is unbundling good for the buyer, and when is it good only for the seller?"

Common student confusion: Students think efficiency and fairness are the same thing. An unbundled price that matches a traveler's willingness to pay is economically efficient — it eliminates deadweight loss — but it doesn't feel fair, because it captures value the traveler would have kept under a flat, bundled price.

Sunk Cost Fallacy & Escalation of Commitment

Talking point: By the time a traveler is deep into the booking funnel, entering a credit card number, they've already spent ten or fifteen minutes selecting flights and adding items to a cart. Each additional fee produces a small moment of frustration, but abandoning the purchase means losing that invested time. Ask: "Why don't more people close the tab and start over on a different site?"

Common student confusion: Students may say "I'd just start over." Push back with the real cost: "What have you already spent that you can't get back if you start over — and does that thing you can't get back have anything to do with which flight is actually the better deal?"

GUIDED READING

Focus question:

For every effect of unbundled pricing you read about — ask yourself: is this "seen" or "unseen"? Mark each one.

While reading, annotate the article: circle economic choices, underline surprising moments, and put a "?" next to anything that puzzles you.

AFTER READING: QUICK COMPREHENSION CHECK

1. What is the central economic tension that unbundled pricing creates for consumers trying to compare travel costs?

SUGGESTED ANSWER / TALKING POINTS

Strong answer: *Unbundling makes the advertised price cheaper and more competitive on the number consumers compare first — the headline fare — while shifting real costs into fees revealed later in the booking process. The short-term "win" is a lower sticker price; the cost is that comparison shopping across airlines becomes far harder, because two travelers with different needs (bags, seats, changes) pay very different total prices for the "same" $199 fare.*

Redirect if students only describe fees as a scam: *"You've described what's noticeable. What's less noticeable, but still part of the total price?"*

2. Which concept from the table above best explains why the base fare grabs your attention while the fees don't? Why?

SUGGESTED ANSWER / TALKING POINTS

Strong answer: The Noticeability Principle (salience) is the deepest explanation. Consumers weigh the most visible, most comparable number — the advertised base fare — far more heavily than costs revealed afterward, even when those later costs are large and predictable. The base fare is what shows up in search results; the fees do not.

Also accept Shrouded Attributes with the caveat: Shrouded attributes explains why firms choose to reveal fees late; salience explains why that strategy works on consumers. The two concepts describe the same phenomenon from the seller's side and the buyer's side.

Push advanced students: *"If drip pricing works because consumers are inattentive to sequential costs, why doesn't competition eliminate it?" Answer: Gabaix and Laibson's* *model shows unshrouding first doesn't pay — the firm that reveals all fees upfront looks more expensive in every price-comparison search than firms that still shroud theirs, so no individual firm benefits from breaking ranks first.*

3. What surprised you most about what the data actually showed?

SUGGESTED ANSWER / TALKING POINTS

This question is diagnostic, not evaluative. What students find surprising tells you which “unseen” aspect they hadn't considered. Most common surprises:

(a) that ancillary fee revenue has grown into a multi-billion-dollar segment of airline revenue — students assume fees are minor add-ons, not a deliberate revenue strategy;

(b) that a 2024 federal rule was needed at all — students often assume competition alone should have forced disclosure sooner;

(c) that unbundling can genuinely benefit minimalist travelers even as it creates real risk of overpaying for everyone else — there's no clean verdict.

Use their surprise as a bridge to the lesson's core claim: *“The fact that this surprised you is the point. We're trained to notice the most visible number in a transaction and systematically undertrained to notice what's revealed later. That asymmetry is exactly what pricing strategies like drip pricing are built to exploit, and it shapes far more of your spending than just airline tickets.”*

Phase 2 The Decision Lab | 20–25 minutes

Teacher Implementation Notes

WHY LAYERED DATA

The sequence matters. Students who receive all the data at once produce a synthesis. Students who receive it in layers produce economic reasoning, they form judgments, then revise them as new information arrives. These are provisional judgments, revised through experience, moving toward a more complete picture. It is also an accurate model of how economic knowledge actually accumulates.

LAYER 1 — Advertised Base Fares

> **Data released:** *Since Spirit Airlines pioneered unbundled pricing in 2006, average advertised base fares have fallen substantially, and low-cost carriers now regularly list fares under $100 for routes that once cost several times that amount fully bundled.*

What is “seen” in this data?

> **SUGGESTED ANSWER / TALKING POINTS**
> The falling advertised base fare is starkly visible — it's the number in every search result and every ad. What's not yet visible in this layer alone is what else the traveler will end up paying before the trip is booked. Draw attention to this: the data shows the price a firm wants you to see first, not necessarily the price you'll ultimately pay.

What is "unseen" or missing from this data alone?

SUGGESTED ANSWER / TALKING POINTS

Whether the traveler needs a bag, a seat assignment, or a specific departure time; whether comparison shopping is even possible without knowing the final price; and whether the savings on the base fare will be offset, in whole or in part, by fees revealed later in the process.

Teacher move: *Before revealing Layer 2, ask: "Based only on this data, is unbundled pricing good or bad for travelers? Can you tell?" Most students will say they can't tell yet. Good. That productive uncertainty is exactly where you want them before the next layer.*

LAYER 2 — Ancillary Fees

Data released: *Airline ancillary revenue — bag fees, seat selection, change fees, and similar charges — has grown into a multi-billion-dollar segment of industry revenue since 2006, rising far faster than base fares have fallen.*

Does this change your picture? How?

SUGGESTED ANSWER / TALKING POINTS

It should. The falling base fare in Layer 1 wasn't simply a gift to consumers — a meaningful share of it was shifted into a new revenue stream, not eliminated. This is the unbundling mechanism at work: airlines aren't necessarily charging less overall, they're re-labeling what used to be included so each piece can be priced separately.

Who gained? Who lost? Are these the same people?

SUGGESTED ANSWER / TALKING POINTS

This is the lesson's most important distributional question, and the honest answer is: it depends on the traveler. Minimalist travelers — no bag, no seat preference, flexible dates — capture real savings from unbundling. Travelers who need multiple add-ons, or who don't carefully anticipate their needs at booking, often end up paying close to, or more than, they would have under a bundled fare. The "winners" and "losers" aren't fixed groups of people; they're determined by how well each traveler can predict and plan around their own needs.

Teacher move: *"Are the winners and losers the same people across different trips?" This question surfaces the distributional complexity without resolving it. Acknowledge that even disciplined travelers get caught off guard occasionally, while pressing the economic frame: "What information would a traveler need before booking to reliably come out ahead under unbundled pricing?"*

LAYER 3 — Total Price Paid

> **Data released:** *Research on drip pricing shows consumers systematically underestimate total cost when a price is revealed in stages. By the time all fees are added, many unbundled tickets cost close to, or more than, a comparable bundled fare from a full-service carrier.*

Who benefited from the ability to pick and choose which add-ons to pay for? Are they in the data we've seen so far?

SUGGESTED ANSWER / TALKING POINTS

Yes, partially — but the data also reveals a group that's easy to miss: travelers who intended to compare prices carefully across airlines but, once inside a specific booking funnel, incurred sunk costs (time, attention, a partially filled cart) that made switching sites feel more costly than finishing the purchase. They “chose” the final price in only the loosest sense. The travelers who benefit most cleanly are the ones who know exactly what they need and firmly comparison-shop the all-in price before starting a booking funnel at all — a smaller group than the headline fare's popularity would suggest.

What does this add to the “unseen” column of your picture?

SUGGESTED ANSWER / TALKING POINTS

The unseen cost here isn't just money — it's the erosion of consumer surplus. Gabaix and Laibson's shrouded attributes model shows this isn't accidental: firms with no individual incentive to unshroud fees first can extract more of a buyer's willingness-to-pay than a single transparent price would allow. That's a real transfer of value from consumer to firm, even in a fully competitive market, and it happens gradually enough that most travelers never total it up.

> ***Teacher move:*** *“If you're advising a friend booking a flight, what's the one question that would have prevented most of the surprise fees?” The answer — “what is the total price including everything I need” — reframes the entire booking process around the unseen rather than the advertised number.*

LAYER 4 — Regulatory Response

> **Data released:** *In 2024, the U.S. Department of Transportation finalized a rule requiring airlines and ticket agents to disclose baggage, change, and cancellation fees upfront, citing years of consumer complaints about fees revealed only late in the booking process.*

Why does this complicate the “unbundling is a win for consumers” narrative from Layer 3?

SUGGESTED ANSWER / TALKING POINTS

Because a federal disclosure mandate is itself evidence that competitive markets, left alone, hadn't produced full transparency after nearly two decades of unbundled pricing — the shrouded-attributes model predicts exactly this outcome. This isn't necessarily a case against unbundling as a pricing structure; it's a case that unbundling combined with sequential disclosure can persist even under competition, and correcting it required a rule rather than emerging on its own. Firms retain wide latitude in how add-on prices are set and which items are unbundled in the first place, even after the rule.

> ***Teacher move:*** *The purpose of Layer 4 is to complicate it honestly. A teacher who presents only Layers 1–3 is doing what the article warns against: letting the advertised price stand in for the full picture. The data's honest message is: unbundling can be efficient and exploitative at the same time, and disclosure rules address one problem (hidden information) without resolving whether price discrimination through unbundling is, on net, good for consumers. A person who says "unbundling is always a scam" is making the same error as a person who says "regulation never helps consumers." The evidence demands humility from both sides.*

SEEN VS. UNSEEN AUDIT — SUGGESTED ANSWERS

THE SEEN (what the data shows directly)	THE UNSEEN (implied but not directly visible in pricing data)
• Advertised base fares have fallen substantially since 2006 • Ancillary fee revenue has grown into a multi-billion-dollar segment of airline revenue • Consumer complaints and a 2024 DOT disclosure rule • Low-cost carriers now serve routes and travelers that bundled pricing once priced out • The base fare is the number every traveler sees first and compares across airlines	• The total price many travelers actually pay once fees are added, often close to or above bundled fares • Consumer surplus lost to firms that can price closer to each traveler's maximum willingness to pay • Why no individual firm unshrouds fees first, even under full competition (Gabaix & Laibson's shrouded attributes model) • The sunk-cost pressure that keeps travelers inside a booking funnel once they've started • Minimalist travelers' genuine savings, which don't appear in "hidden fee" narratives

THE DISCLOSURE RULE MOMENT

In 2024, the U.S. Department of Transportation required airlines and ticket agents to disclose baggage, change, and cancellation fees upfront, following nearly two decades of consumer complaints about drip pricing dating back to Spirit's 2006 unbundling launch.

Was the push for mandatory fee disclosure rational given the data available to regulators and consumers at the time?

SUGGESTED ANSWER / TALKING POINTS

Yes — and this is the important nuance. The complaints were accurate. Fees were being revealed late. Consumers were systematically underestimating total costs, and documented total prices often exceeded what travelers expected when they started booking. The push for disclosure was a rational reaction to a real, measurable problem, given the information available.

The economic insight: Critics of the rule point to a different kind of unseen: whether mandatory disclosure changes airlines' underlying incentive to unbundle in the first place, or whether firms will find new ways to structure fees that comply with the letter of the rule while preserving its effect. A rule that targets today's known fees does not resolve tomorrow's shrouded attribute.

What was the “unseen” they could not yet observe?

SUGGESTED ANSWER / TALKING POINTS

The unseen was how firms would adapt once required to disclose upfront. Would base fares rise to absorb previously separate fees, eroding the savings available to minimalist travelers? Would firms shift the same behavioral dynamics to a not-yet-regulated part of the booking funnel — seat maps, insurance add-ons, “fast lane” subscriptions? None of these outcomes were fully knowable from the complaint data available before the rule took effect; they depend on firms' choices that hadn't been made yet.

DISCUSSION PROMPT — FACILITATION NOTES

The brief pair discussion at the end of Phase 2 is intentionally unresolved. Do not try to reach an agreement here. The productive tension fuels Phase 3. If students do reach agreement quickly, prompt: "What would someone who disagrees with both of you say?"

Phase 3 Decide and Defend | 25–30 minutes

Structured Academic Controversy — Teacher Guide

THE SAC QUESTION — YOUR FRAMING BEFORE STUDENTS BEGIN

SAC rewards understanding. The protocol deliberately separates arguing from believing, students argue assigned positions, which removes ego from the exercise and makes genuine perspective-taking possible. In Round 3 students who must argue the opposing side are far more likely to identify genuine tradeoffs and produce nuanced conclusions.

For more on the SAC protocol: thediscussionproject.org

Should governments require companies to disclose the full, all-in price upfront, or should markets be allowed to determine their own pricing and disclosure practices?

Frame it for students this way:

"Data suggests unbundled, drip-priced products are spreading well beyond airlines — into hotels, concert tickets, and streaming services — and it already is. The question is who should manage that disclosure and how. The airline case gives us a real-world test: what actually happened when a federal regulator faced this question with drip pricing? What did it do? What did it not do? And what does the outcome tell us about what happens when you let markets adapt versus when you mandate disclosure?"

Assign positions before students read the article's central SAC question. Brief groups on their position before the question is revealed to prevent premature anchoring.

ARGUMENTS FOR EACH POSITION

Know these well enough to prompt students who are making weak versions of each case. The goal of SAC is to produce the strongest possible version of both arguments.

Position A — Mandated Transparency (the strongest version)

Economic core: Drip pricing exploits a well-documented, predictable feature of human cognition — the salience of the first number shown — and Gabaix and Laibson's model shows competitive markets have no built-in mechanism to correct this on their own: unshrouding fees first makes a firm look more expensive, not more honest, in every price-comparison search. Where a pricing structure systematically produces decisions consumers wouldn't make with full information, there's an argument for requiring the information upfront — not to ban unbundling, but to make comparison shopping possible.

Best historical evidence: The 2024 DOT disclosure rule followed nearly two decades in which the market did not resolve the problem on its own, despite intense competition among low-cost carriers. The mandated-transparency position doesn't require re-bundling every airline ticket; it requires all-in price disclosure at the point of comparison — informational correction, not structural intervention.

Strongest single argument: *"Consumers can't make a rational choice with information they don't have. If the market structure guarantees no individual firm will volunteer that information, disclosure isn't red tape — it's the precondition for the free choice markets are supposed to protect."*

Position B — Market-Determined Pricing (the strongest version)

Economic core: Unbundling is what made air travel affordable to millions of budget-conscious travelers who don't want extras baked into every fare — a direct descendant of the deregulation that followed the end of the Civil Aeronautics Board. A regulator writing disclosure rules must decide, in advance, exactly which fees to show, in what order, and at what point in the booking process — decisions that will always lag how quickly firms restructure their offerings. The knowledge of what disclosure actually helps a given traveler compare, at the moment they need it, is dispersed across millions of individual purchases; no single rule can capture it.

Best historical evidence: Even after the 2024 rule targeted baggage, change, and cancellation fees specifically, firms retain latitude over seat selection pricing, priority boarding, and other add-ons not covered by the rule — evidence that regulation targets yesterday's fee structure, not tomorrow's. The low base fares and budget carriers that exist today emerged without being planned by any regulator.

Strongest single argument: *"If regulators had frozen airline pricing at 2005's bundled-fare structure, the budget carriers and rock-bottom base fares that exist today might never have emerged. The best thing a regulator can do for minimalist travelers is preserve their ability to buy only what they need — and let reputation, review sites, and competition handle the rest."*

ROUND-BY-ROUND FACILITATION NOTES

Round	What to watch for	Intervention prompt
Rounds 1 & 2 — Present and Listen	Watch for assertion masquerading as economic reasoning: "Airlines are just greedy" or "Regulation always backfires" are positions, not arguments. **Prompt:** "What's the economic mechanism behind that claim?" Require students to name a concept from Phase 1.	*"What does the pricing data tell us about this claim specifically?"*
Round 3 — The Switch	This is the intellectual core of the protocol. Students who argue the opposite side with genuine effort, using the Round 2 notes, almost always discover that the other position is stronger than they thought. That discovery is the learning. Resist the impulse to resolve the discomfort; the discomfort is productive.	*"What's the strongest piece of evidence the other side has that you haven't answered yet?"*
Round 4 — Synthesize	Push against false balance ("Both sides have good points" is not a conclusion). Require students to name the specific tradeoff their conclusion acknowledges, and to use the pricing data to support it. Mandated disclosure can correct a real information gap but can't fully prevent firms from restructuring fees elsewhere; market-determined pricing preserves flexibility but leaves the salience problem unaddressed. Acknowledging both is not a concession; it is accurate economic analysis.	*"Name the tradeoff your conclusion accepts. What does it give up? What does it gain?"*

WRITTEN CLOSE — ASSESSMENT GUIDANCE AND EXEMPLAR RESPONSES

The individual written close is the primary formative assessment. Here is what strong and weak responses look like for each question.

1. My final position on the central question:

SUGGESTED ANSWER / TALKING POINTS

Strong response: Names a position AND a tradeoff. "I believe mandated transparency corrects a real information gap that competition alone hasn't fixed — the pricing data shows drip pricing persisted for nearly two decades despite intense competition among low-cost carriers. The tradeoff I accept is that disclosure rules can't anticipate every new way firms might restructure fees, so some shrouding will likely continue in areas the rule doesn't cover."

Weak response: States a preference without economic reasoning. "I think companies should just be honest about pricing." This is a value statement, not economic analysis. Prompt: "What does the pricing data tell you specifically?"

2. The argument (from either side) that most changed or deepened my thinking:

SUGGESTED ANSWER / TALKING POINTS

Strong response: Names the specific argument and explains WHY it was compelling. "The market-adaptation argument that regulation always targets yesterday's fee structure changed my thinking — I had assumed the 2024 rule solved drip pricing, but it only covers three specific fees, and I hadn't considered how quickly firms could shift the same tactic somewhere the rule doesn't mention."

Weak response: Describes what happened without analyzing it. "The other side made some good points about regulation being slow." Prompt: "Which point specifically? What economic concept did it use?"

3. One economic concept from today I could apply to a completely different real-world situation:

SUGGESTED ANSWER / TALKING POINTS

Strong response: Names a concept AND a genuinely new context. "The Noticeability Principle applies to subscription services: the free trial and low intro price are the salient numbers, while the higher recurring charge and cancellation steps are revealed later or made harder to find — the same sequencing that makes drip pricing work on airline tickets."

Weak response: Re-applies the concept to the same context. "Salience could apply to other airline fees too." This is pattern-matching, not transfer. The concept has genuinely transferred when students can identify it in a domain they weren't taught.

ECONOMIC EDUCATION CONTEXT

Why behavioral economics is a free-market priority right now

The most effective arguments against free markets in the current moment increasingly point to behavioral evidence: "People don't actually behave like rational optimizers, so markets can't be trusted to produce fair outcomes." **A student who can't distinguish a**

market-structure critique (unbundling) from a rationality critique (salience bias), or who can't ask "does this bias get competed away, or does the market structure protect it?" is not equipped to engage the most sophisticated critiques of markets they will encounter as citizens.

The pricing-transparency debate as a teaching moment:

The debate over drip pricing and disclosure rules is playing out right now across hotels, ticketing platforms, and streaming subscriptions, not just airlines. The airline case is not a perfect analogy for every unbundled product, but the pattern is instructive: firms have no individual incentive to unshroud fees first, even in fiercely competitive markets, and disclosure rules tend to target the specific fees that generated the most complaints rather than the underlying pricing structure. Teaching students to hold that nuance is one of the most valuable things an economics educator can do right now.

The policy implications students should be able to articulate:

- **The shrouded attributes model** (Gabaix & Laibson) is an argument against assuming competition alone unshrouds hidden costs: firms that reveal all fees upfront look more expensive in comparison, not more honest, so no individual firm benefits from breaking ranks first.
- **Consumer surplus** is not automatically preserved by low headline prices: a pricing structure that moves the final cost closer to each buyer's maximum willingness to pay is economically efficient, but it can also mean the buyer keeps less of the value from the transaction than a flat, bundled price would have left them.
- **The salience** and **noticeability** distinction is the most powerful tool for evaluating pricing complaints of any kind: every "hidden fee" story has a seen cost (the fee itself) and an unseen tradeoff (the lower base fare, or the added flexibility, that the unbundled structure also makes possible). Students who can identify both sides are better consumers and better citizens.