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As someone who has studied the psychological forces that influence consumer behavior and the ways that firms exploit consumer confusion, it's exciting to see research bearing fruit in concrete policy proposals that will improve consumer well-being.

In addition to conducting research, I'm also a teacher, and have the great pleasure of teaching the principles of economics course at Harvard. Wearing my teacher hat, I want to talk about two things. First, I'll explain why cracking down on junk fees is not an impingement on markets – but in fact necessary to allow markets to work. Second, I'll explain why junk fees tend to disproportionately hit consumers who are the least financially sophisticated, and how junk fee regulation differentially helps those who are the most economically vulnerable.

Adam Smith explained how free markets make us better off. Bakers make bread. Consumers choose to buy the bread with the best combination of price and quality. Society thrives, *despite* the profit motive of the bakers, because competition forces bakers to make good products at low prices. If a baker charges more than the competition (holding quality fixed), that baker will lose customers. Through this mechanism, competition pushes prices down and quality up.

Of course, competition sometimes does not work in *practice* as well as it works in our textbook examples.

Bakers might *collude* to keep prices high. Economists agree that governments should prevent firms from colluding or from monopolizing a market by buying their competitors.

Bakers might also *deceive* consumers, unravelling the social benefits of competition. For competition to make us better off, consumers need to be able to accurately comparison shop. Prices need to be clearly reported. Quality needs to be easily measured.

It's good when a firm cuts its price to attract customers. That's competition that works in our favor. It's bad when a firm only *pretends* to cut its price and customers buy a product because they got tricked.

There are many ways that firms deploy pricing schemes that are misleading or needlessly shrouded.

Firms use bait and switch tactics: advertise a low-price TV that is not in stock to draw in customers who will end up buying the higher cost TVs that are on the shelves.

Firms use drip pricing: market a low-priced printer that only works with a patented ink cartridge priced with a huge mark-up.

Firms use hidden fees: sell a hotel room at a low price, then add resort fees that are unavoidable.

Firms use maze-like unenrollment systems: make it nearly impossible for a human being to discover the sequence of clicks and passwords that enable them to unenroll from a free trial.

Firms use shrouded, gotcha penalty pricing: charge a $30 penalty fee for a $1 overdraft.

These are examples of pricing schemes that are innovatively tricking consumers instead of innovatively serving them. These tricks-and-traps pricing schemes are anti-competitive because they shroud the true cost of goods and services and undermine the competitive forces that would normally raise societal well-being.

Moreover, these tricks-and-traps have another socially corrosive feature. Tricks-and-traps have a disproportionate adverse impact on households with relatively low levels of financial sophistication and a disproportionate advantageous impact on households with relatively high levels of financial sophistication. Here's why.

If a consumer understands the tricks-and-traps, the consumer is better equipped to find ways of working around them and in some cases avoiding them altogether. A sophisticated consumer takes advantage of loss-leader pricing while avoiding that product's add-on costs and drip-pricing. A sophisticated consumer manages their bank account carefully, taking the 50,000 miles for opening a new credit card, while avoiding the fees and interest payments that make the card profitable for the card issuer. The cost of financial services falls on the consumers that pay the fees, creating a disproportionate burden for consumers with relatively low levels of sophistication who pay the fees that make free gifts and free services possible for everyone else.

Pushing back against anti-competitive, shrouded pricing schemes will make consumers better off, especially consumers with relatively low levels of financial sophistication, and will enable firms with good products and low *true* prices to grow their market share. When manipulative marketing isn't allowed, consumers gain and innovation is focused on product enhancement instead of smoke and mirrors.

As an admirer of Adam Smith, I want a competitive market instead of a tricks-and-traps market. Consumers should not be deluged with products and schemes that have the effect of misleading them. Firms should stop designing better means of deceiving their customers and instead direct their innovation toward real quality improvements and real price reductions.

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