

ABSTRACT

Ville Aalto-Setälä, Marita Nikkilä

Effect of the euro on pricing and consumer price knowledge

This study investigates the effects of the change of cash currency on firms' pricing patterns and consumers' price knowledge. We pursue the themes of the book *Consumers, Markets and the Euro* (Aalto-Setälä et al., 2003) published earlier by the National Consumer Research Centre. One of the book's key findings was that pricing and price knowledge had not yet fully adjusted to the new currency by spring 2003. This study continues the examination of these themes by focusing on changes in pricing and price knowledge over the two-year period from the transition up till January-February 2004. As noted in the book, the euro changeover did not raise the price level. This time we no longer examine the euro impact on price level, since after more than two years it is impossible to differentiate the effects of the euro from other factors affecting the price level.

Price knowledge naturally weakened as a result of the currency change. Yet, it is surprising that consumers' knowledge of prices has improved very slowly since the adoption of the euro. At the beginning of 2004, over two years from the currency change, price knowledge continued to be considerably weaker than in the age of the former national currency, the markka. As expected, knowledge of prices had weakened most among the oldest age group of consumers. The slow development of price knowledge is apparently due to the fact that the effect of the change of currency unit was not limited to certain individual prices. The markka had acted as a yardstick for consumers' price knowledge and had strongly guided the pricing patterns of firms. Considering that price adjustment to the euro is still ongoing and that pricing has been in a state of change throughout the euro period, the sluggish recovery of consumer price knowledge does not seem so surprising after all.

How long it will take for price knowledge to return to the level in the former markka age is an open question. Or might it be that the change of currency has weakened consumers' price knowledge permanently? It is important to study this question both from the viewpoint of consumer policy and of science: could a 'mere' change in nominal prices result in a permanent weakening of price knowledge in the market?

Keywords: Euro, prices, effects, pricing, trade, retail trade, consumers, markets