

Saliency and Policy Instruments: Evidence from the Auto Market*

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Abstract

We take advantage of a unique institutional setting which allows consumers to separately value fuel and vehicle (or road) taxes. We estimate a consumer-level structural model of vehicle choice using revealed preference data and controlling for heterogeneity at the micro level. We find that consumers undervalue both policy instruments, but undervaluation of the latter is substantially more severe. We examine potential explanations and document that behavioral explanations, in particular saliency of the policy instruments, lie at the root of our findings; for a number of the salient versions of vehicle tax and fuel costs we then construct, we cannot reject the null hypothesis of their correct valuation. This also holds when using different measures of news and online search activity as proxies for saliency. The results call for complementary policy instruments to restore market efficiency and for measures to make policy instruments more salient to consumers.

Key words: automobiles, energy efficiency, energy paradox, energy efficiency gap, fuel tax, standard, fuel economy, CO2 emissions, vehicle tax, road tax.

JEL Classification Codes: D12, L62, Q40, Q41, Q48, Q50, Q58.

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