Optimal return policy (joint with Zvika Neeman and Hadar Binksy)

Abtract

we study a model in which a buyer is uncertain about whether an item will suit her needs or not. The seller can offer contracts with a purchase price and the possibility of a refund if the buyer chooses to return the item, an action for which the seller suffers from a reprocessing fee. We show that seller-optimal contracts do no offer partial refunds: in any optimal menu, the seller offers a no-refund contract, a full refund contract or a combination of the two.