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Are gas prices high or low? Yes

By George Avalos
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We gripe about it. We can't do a lot about it. And eventually, we get used to it.

Yup, how we tend to respond to those persistently high gasoline prices is starting to look a lot like the weather.

Remember a few weeks ago? Right around the time the hurricanes were tearing through the Gulf Coast and Florida, gasoline prices shot to \$3 a gallon and often spiked well past that ominous benchmark in the Bay Area and other parts of the country.

Not surprisingly, people howled about the record prices and dreaded the moment the fuel gauge slipped below a quarter-tank and pointed at the "E" indicator. And they yelped for good reason, since the surging cost of fuel had begun to chew up their pocketbooks.

Responding to the public outcry, members of Congress headed to the podiums and television cameras to complain about skyrocketing prices, rapacious energy barons and greedy oil sheiks.

Now, gasoline is more like \$2.60 a gallon, although some low-price leaders in places such as Oakland and Berkeley have shoved per-gallon costs down to \$2.37. And a lot of people are ecstatic about the roughly 10 percent drop in prices. After all, \$2.60 looks a whole lot better than \$3 or worse.

Debbie DeSantis of Livermore is glad to see the cheaper prices. Yet DeSantis is well aware that there's some irony when drivers rejoice about a price level they once despised.

"If I get a coupon for a free soda, I get all excited because it's free," DeSantis said. "It's an emotional reaction, it's human nature. Any time you pay less, you're happy even if it's still too much."

It wasn't that many months back, last spring and summer, when people were complaining about gasoline at \$2.50 a gallon. And people were pretty grim at the beginning of this year and the latter part of 2004 when gas jumped past \$2 a gallon.

So how is it that \$2.60 a gallon was the proverbial sow's ear around the middle of this year but was transformed into a silk purse this fall?

Maybe it really is human nature, mixed with how gasoline is marketed to people.

"Initially, when gasoline prices go up, that helps create a reference point for gasoline and you notice it when the price goes past that reference point," said Cesar Maloles, a professor with the College of Economics and Business at California State University East Bay.

What's more, people are often exposed to media reports about a surge in gasoline prices.

"They come to expect that prices are going to increase," Maloles said. "When gasoline becomes less expensive, they are conditioned to think the price they are paying is a better deal than when it was at that price before."

What's more, over a period of time, people will adopt a new benchmark -- in the case of gasoline, typically at an ever-increasing price -- to determine their attitude about a current or recent price. That becomes the new framework.

"After a while, people will drive more or less about the same amount of miles, take the same kinds of trips, as they did before," said Itamar Simonson, a professor with Stanford University's Graduate School of Business. "This happens when you raise the sales tax from 7 percent to 8 percent. For a few weeks, people get excited about it. Then they get used to it."

"People in general tend to overreact on changes in gasoline prices," said Severin Borenstein, director of the Berkeley-based University of California Energy Institute. "It isn't really that they're outraged based on real financial pain. It's just the shock that it has gone up that much."

Even experts who are well aware of how consumers can be nudged into a cheerful attitude over modest declines in gasoline prices give a hearty cheer when they can pay less at the pump.

"We've been shell-shocked by \$3.25 gas and I almost celebrated when I saw something at \$2.64 the other day," said Peter Sealey, co-director of the Center of Marketing and Technology at UC Berkeley. "At the current prices, it looks as if it's on sale."

And motorists also may feel a sense of relief because they have escaped the worst of the gasoline prices, at least for a while.

"It's like you have a toothache and it temporarily goes away," Sealey said.