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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. N2012-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS ELMORE-YALCH TO QUESTIONS POSED DURING ORAL CROSS-EXAMINATION

The United States Postal Service hereby provides the responses of witness Elmore-Yalch to questions raised during her oral cross-examination in this docket on March 21, 2012, at transcript pages 671 and 685-87. Citations to questions are provided, with questions either repeated verbatim or paraphrased—or both, and followed by the responses.

Respectfully submitted,

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RESPONSE OF WITNESS ELMORE-YALCH TO QUESTION RAISED DURING ORAL CROSS-EXAMINATION

Tr. 671

CHAIRMAN GOLDWAY: I have some questions. First, I'd like to finish the questions I was asking with Commissioner Taub. Could you get in writing for us a comparison of the sample size for each category of respondents in Phase I and Phase II?

THE WITNESS: Yes.

CHAIRMAN GOLDWAY: And provide that. Good. Thank you. We'd like that.

RESPONSE:

Sample Size Comparisons – Phase 1 versus Phase 2

Segment	**Phase 1**	**Phase 2**
National Accounts	76	28
Premier Accounts	753	429
Preferred Accounts	830	434
Small Businesses	969	600
Home-Based Businesses	1,002	405
Consumers	848	1,007
Sample sizes are total number of interviews completed in each segment prior to any data processing / cleaning.		

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Tr. 685-87:

BY MR. HOLLIES:

Q Ms. Elmore-Yalch; you were asked questions about use of the Juster scale in contexts where service decreased. Is there an example of this in your own work that you have observed?

A Yes. Actually there is quite a bit of work that while not academic in nature is from practical experience in other work we've done. I think the best example that I can give is if you consider and think about public transportation services, and they have done a lot of research in terms of what happens if they cut back service a lot recently, and so, for example, if I were to come to you and say, all right, how many trips do you take right now in a month, one-way trips, very typical question, and somebody says I take 20, and then I say, okay, well, right now your service is every 10 minutes, if I were to cut service back so your bus service is every 50 minutes, how many one-way trips would you take, and people will either respond the same, i.e., I'll make no change, or, in many cases, people because that is a degradation in service will say I'm going to take fewer trips. If you go back, though, and you look at ridership data over changes such as that, and in transit it's great because they keep regular ridership data, you can see that when service comes across and it degrades either through a say price increase with no change in service or they actually cut back service, ridership will go down, and then typically it will rise again to some level, oftentimes exactly what it was or to a level slightly below. So it's real clear to us that when people initially respond, a lot of it is emotional, but when you actually have to change your behavior over the long-term, like I'm going to ride, what are you going to do, pay for parking, going to walk, well, most people are going to turn around and say, well, actually the extra five minutes, I'm just going to grin and bear it. So I think that's a great example. There's lots of examples out there in that particular sector and some others I would believe, but most deal with public transportation.

CHAIRMAN GOLDWAY: Do you have academic citings for any of those kinds of transportation studies?

THE WITNESS: I don't have academic citings, but I'm sure that if I went and asked any local transportation system that's done research in this, they could pull up that information.

THE WITNESS: I can take a look at a few …

COMMISSIONER ACTON: If I just may add. I appreciate you taking the time to spend a little more discussion about this matter because it was an important point that the Commissioners wrestled with in our original review of this in a different docket but the same concept. And a big part of our problem was finding the sort of

> reference that you just made here on the stand, so any information you can provide to the Commission that will point us toward that type of application of this individual technique would be helpful for us. Thank you.

RESPONSE:

The market research industry, academia and my employer ORC believe strongly that the Juster Scale has a very constructive role to play in quantitative market research design. That was certainly true when I testified before the Commission in the five-day delivery case (PRC Docket No N2010-1), in which we also brought in one of the leading lights from academia, Professor Peter Boatwright, to explain to the Commission how broad the support for use of the Juster Scale is in the market research industry, and that failing to use it does not conform with industry standards. We thought then that the Commission's rejection of its use in that case was empirically unsound, and we continue to think so today.

In this docket, the Postal Service has provided substantial additional material, including additional examples from the academic literature, in our attempt to educate Commissioners and staff. Indeed, I understand that the Commission itself has extensive experience with the tendency of market research respondents generally to overstate their response; such testimony has been provided by other market research professionals including witnesses Rothschild and Ellard. The Juster Scale is one recognized way of attempting to address the problem of over-projection by survey respondents for reasons discussed by witness Whiteman in section III(C) of his testimony (USPS-T-12). We have focused in this case more on overstatement of responses to decremental changes in the characteristics of existing services, which is the specter posed in this case by the proposed changes in First-Class Mail service standards.

There was mention during my oral cross-examination that the Commission and I (or ORC or the Postal Service) might “agree to disagree” on this point (Tr. 585). That statement may reflect an appropriate measure of professional distance, but it does not mean that I agree the Commission can, in conflict with applicable expert and academic opinion, reasonably hold a contrary opinion—at least based on the sum of information of which I am aware or have been exposed to in my career as a survey research professional.

Yet I recognize in the statements quoted above from Commissioners Goldway and Acton a genuine interest in learning more about this issue in survey research. I routinely see examples from my own survey research in the transportation industry, as my comments quoted above reflect. Yet I was frustrated by my inability to locate an example from the transportation industry, despite my expectation that would be simple; but that research tends not to be publicly available. The work that I found was primarily econometric modeling to determine elasticities to changes in service. Primary research tended to focus on effects of fare increases or the effects of a combination of fares and changes to service. So I went back again to the academic literature looking for specific examples that might help illustrate our point.

We did find the following article, which compares an econometric model and a survey of anglers' projected response to the diminished stocking of fish, with anglers' actual behavior.[1]

> Richard Ready, Donald Epp & Willard Delavan (2005): A Comparison of Revealed, Stated, and Actual Behavior in Response to a Change in Fishing Quality, Human Dimensions of Wildlife: An International Journal, 10:1, 39-52

This article involves a situation where Pennsylvania stocked 28 percent fewer catchable trout in a particular year (due to water quality issues). The analysis showed that survey responses better predicted actual behavior than the econometric analysis. Moreover, the projected response among survey respondents was substantially greater than actual behavior. In the survey, respondents were asked whether the specified reduction in the number of trout stocked would make trout fishing more enjoyable or less enjoyable for them, and whether they would still buy a license and stamp if stocking levels were reduced. Despite an acknowledgement in the article that criterion validity of stated preference techniques have found that survey respondents may overstate the likelihood of paying for an environmental or recreational good, relative to behavior revealed in simulated markets (page 41), the researchers did not use the Juster Scale or any other tested methodology to adjust for this potential overstatement.

In another analysis, authors explored the hypothetical bias of individuals' willingness-to-pay (WTP) by conducting a meta-analysis of 28 studies that reported comparable hypothetical (stated-preference) and actual values.

[1] The article can be retrieved from: http://dx.doi.org/10.1080/10871200590904879. (The Postal Service is able to make its copy of this article available for inspection, but not copying.)

Analysis showed a median ratio of hypothetical to actual value of 1.35—that is, the hypothetical overstated actual willingness-to-pay by 35 percent. The article further discusses that some calibration methods may be effective at reducing this bias. While the article focuses on the use of choice-based methods to reduce bias, this article clearly demonstrates the extent to which respondents to hypothetical situations overstate their responses and the need for some form of adjustment.

> James P. Murphy, P. Geoffrey Allen, Thomas H. Stevens, and Darryl Weatherhead, "A Meta-Analysis of Hypothetical Bias in Stated Preference Valuation," Environmental and Resource Economics (2005) 30: 313–325[2]

In conjunction with the extensive bibliographies provided to support the use of the Juster Scale (*see* USPS-T-11 p. 44, n. 3-4; Tr. 561, 776-778), these additional studies are instructive in several respects. First, the study by Ready clearly shows that respondents in a stated preference survey gave more accurate responses to what their behavior would be than an econometrically based revealed preference study (using historical data). It thus illustrates well the superiority of quantitative research such as the Postal Service presents to the Commission. Both articles further observe that stated preference behavior is over-stated when compared to actual behavior – which illustrates precisely my

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http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1200&context=peri_workingpapers&sei-redir=1&referer=http%3A%2F%2Fscholar.google.com%2Fscholar_url%3Fhl%3Den%26q%3Dhttp%3A%2F%2Fscholarworks.umass.edu%2Fcgi%2Fviewcontent.cgi%253Farticle%253D1200%2526context%253Dperi_workingpapers%26sa%3DX%26scisig%3DAAGBfm2i8br0WZUaHEZd-yL6Nq2U4quPkA%26oi%3Dscholarr#search=%22http%3A%2F%2Fscholarworks.umass.edu%2Fcgi%2Fviewcontent.cgi%3Farticle%3D1200%26context%3Dperi_workingpapers%22

point that use of a Juster Scale adjustment is an appropriate tool in survey researchers' toolkit.