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**Abstract**

Demand estimation and welfare analysis for telecommunications services have often been plagued by apparent inconsistencies between actual consumer behavior and standard economic theory. The latter posits that consumers will subscribe to services when their consumer's surplus exceeds the subscription price. This paper presents an alternative model of subscription behavior under uncertainty. Drawing on the option value literature, we show that expected consumer's surplus is generally not an adequate basis for subscription decisions. We present an empirical example in which option value significantly improves demand estimation. We discuss policy implications, including possible ‘market failures’ in which socially beneficial new technology is not deployed.

**Keywords:** Option value; Telecommunications demand; Policy