
[Download](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Pérez, Alex

Vélez-Velásquez, Juan Sebastián

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination

and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date:

Friday, 09 December 2022

Abstract

Price dispersion is a prevalent feature even of markets where, arguably, homogeneous good are traded. At the heart of the causes of price dispersion lie the firms' strategic interactions with their customers and rivals. Consumers' eagerness and ability to search for lower prices tends to reduce dispersion because it enhances competition. Firms inability to sustain tacit collusion, on the other hand, increases price dispersion. Wholesale costs shock can impact both. We use data on retail gasoline markets from Colombia to assess whether changes in price dispersion following wholesale cost shocks are explained by consumer searching or by firms breaking away from collusive equilibria. We also explore the role played by market structure on the extent of price dispersion. Our findings suggest that changes in price dispersion following wholesale cost shocks are driven by consumers searching more intensely for lower prices. We also find a positive correlation between the number of service stations in a market and how disperse prices are. Our results are robust to alternative ways of measuring price dispersion and alternative ways of defining relevant markets.