AUTHOR OR EDITOR
Pérez, Alex
Vélez-Velásquez, Juan Sebastián

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.