ISSN 1680-8800

SERIES

STUDIES AND PERSPECTIVES

ECLAC SUBREGIONAL HEADQUARTERS IN MEXICO

Is price dispersion always an indication of price discrimination?

José Alberro
Richard Higgins

UNITED NATIONS

ECLAC

S E R I E S

STUDIES AND PERSPECTIVES

ECLAC SUBREGIONAL HEADQUARTERS IN MEXICO

160

Is price dispersion always an indication of price discrimination?

José Alberro
Richard Higgins

UNITED NATIONS

ECLAC

This document has been prepared by José Alberro, Senior Advisor, Cornerstone Research, and Richard Higgins, Director, Berkeley Research Group, within the activities of the work plan of the Economic Development Unit.

The views expressed in this document, which has been reproduced without formal editing, are those of the authors and do not necessarily reflect the views of the Organization.

United Nations publication
ISSN 1680-8800
LC/L.3945
LC/MEX/L.1173

Printed at United Nations, Mexico City 15-00028

Contents

Abstract

It has been established for a long time that there is significant dispersion in prices charged for seemingly homogeneous goods. This may happen in competitive markets because the world is not frictionless, and certainly in other markets where price discrimination is carried out by firms with oligopolistic power. This paper is the first survey of the economic literature on price dispersion that addresses the following three key issues: i) its characteristics as a result of optimizing search behavior; ii) its relevance as a reflection of price discrimination and its consequences for social welfare and policy intervention; and iii) the empirical evidence of price dispersion. By contributing to a better understanding of price dispersion, this survey may help in the design and implementation of competition and anti-trust policies.

I. Introduction

Empirical research has established for a long time that there is significant dispersion in prices charged for seemingly homogeneous goods. For the last six decades, the literature on price dispersion has had two strands: price dispersion occurs in competitive markets because the world is not frictionless; and price dispersion is a consequence of price discrimination by firms with market power and thus a source of concern and intervention by antitrust authorities. In his classical paper, George Stigler noted that “it is important to emphasize the fact that dispersion is ubiquitous even for homogeneous goods… In both the cases of consumer and producer goods, the range of prices is significant on almost any criterion. Price dispersion is a manifestation and, indeed, it is the measure, of ignorance in the market. Dispersion is a biased measure of ignorance because there is never absolute homogeneity in the commodity if we include the terms of sale within the concept of the commodity… But it would be metaphysical, and fruitless, to assert that all dispersion is due to heterogeneity” (Stigler, 1961). This paper briefly surveys the economic literature that addresses those three issues: price dispersion as a result of optimizing search behavior; price dispersion as a reflection of price discrimination and its consequences for social welfare and antitrust intervention; and the empirics of price dispersion.