

## Summary

- Internet Efficiency View
- *Frictionless Commerce (Brynjolfsson, Smith)* – 3 Questions
  - Online competition => lower and homogenous prices?
  - How frequently can retailers adjust their prices in response to changes in supply/demand?
  - Does brand matter for homogenous goods sold online?

Internet Efficiency View – Price competition, location irrelevant, zero economic profit, consumers have complete information.

But, we do see price dispersion.... Mention price dispersion, menu costs.

# Summary

- Frictionless Commerce Results
  - Prices for homogenous goods like books, CDs lower on the Internet
  - Price changes in the online world in smaller increments than in the offline world
  - Significant price dispersion across online retailers

Mention implications – more efficient in terms of price levels and menu costs  
But, price dispersion (retailer heterogeneity in terms of branding, trust responsible?)

Possible reasons for lower prices –  
lower search costs – Internet price intermediaries  
lower entry costs  
lower operational costs

Implication -> more sales through the Internet (as it is a more efficient channel)

Possible reasons for lower menu costs –  
Change a single entry in a database

Possible reasons for price dispersion –  
Bertrand marginal cost pricing result requires many assumptions –  
Products are perfectly homogenous  
Zero search costs  
Consumers have perfect information about prices  
Retailers have no spatial advantage in attracting consumers.  
“Law of One Price”

So, may be a violation of one of the assumptions?  
Salop and Stiglitz models – two types of consumers –

to attract the value-conscious consumers and some result – some stores charge low prices  
to sell to uninformed consumers charge high prices

So, why do we see so much dispersion?

Also prediction of the model – the low-price store will be the sales leader. But, empirically, do we observe it? Ex. Amazon

Possible explanation –  
Heterogeneity in consumer information (due to product and retailer heterogeneity) and non-zero search costs

## Summary

- *Consumer Decision-Making at an Internet Shopbot (Brynjolfsson, Smith) – 3 Questions*
  - How important is brand in determining customer choice?
  - Is brand more important for some types of consumers?
  - How do consumers react to the allocation of total price to different components?

## Summary

- CDIS Results
  - Branding can be important even for homogenous goods.
  - Branding assumes different levels of importance for different consumers.
  - Branding especially important for consumers who care about non-contractible aspects of the product bundle.
  - Higher sensitivity to certain components of the price.

Reasons for price dispersion and for bypassing the lowest price –

Product/Retailer heterogeneity (trust/branding) Brand signal/bond/proxy for credibility.

Undercuts Kuttner article (branding very important)

Reasons for higher sensitivity to particular components of the price –

Prospect Theory (perception of unfair pricing policies) – behavioral economics

How important is branding in Internet markets for less homogenous goods?

## Summary-Salop and Stiglitz

- Search Costs  $> 0$ , Equilibrium not at perfectly competitive price. Permanent price dispersion is possible.
- Informed  $\Rightarrow$  Uninformed (positive externality)
- Uninformed  $\Rightarrow$  Informed (negative externality)
- Imperfect Information  $\Rightarrow$  Price rigidities
- Implications for product quality, variety.