Imperfect Information

- Internet Efficiency View
  - Online competition => lower and homogenous prices?
  - Bertrand Assumptions

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.
Imperfect Information

• *Imperfect Information in the Product Markets (Stiglitz)* and *Bargains & Ripoffs: A Model of Monopolistically Competitive Price Dispersion (Salop and Stiglitz)*

• Traditional/Classical Theory
• The Law of Single Price – Bertrand marginal pricing result
• How to account for price differences?
• Key Assumption?
• Key contention of paper?
Imperfect Information

• Imperfect Information and costly to obtain.
• Imperfect Information => Market Power => Imperfect Price Discrimination
• Imperfect Information => Price Dispersion
• Imperfect Information => Price Rigidities
• Implications of Imperfect Information on Quality and Variety.
Imperfect Information

• Imperfect Information => Market Power

• Imperfect Information => Price Rigidities
  – As number of firms increases, why might prices increase?

• Imperfect Information => Price Distribution
Imperfect Information

• Imperfect Information => P>>MC. Can you take advantage of it? Will advertising help?
• Advertising one way to convey information. Other ways?
• Reputation mechanisms are effective.
• Disclosures, Certification, Guarantees.
Imperfect Information

- Implications on quality and variety of products produced.
- Imperfect information about product => poor quality? What prevents this?
- Loss of reputation > Gain from cheating
- When are reputation mechanisms effective? => P > MC. Why might this be true at equilibrium? How to make consumers ‘switch’?
Imperfect Information

- Value of product variety significantly reduced by costly information.
- Large variety => Price Dispersion (Details in the paper)