Information and Price Dispersion: Evidence from Retail Gasoline

Dieter Pennerstorfer* Philipp Schmidt-Dengler† Christoph Weiss ‡
Biliana Yontcheva§

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Abstract

We examine the relationship between information and price dispersion in the retail gasoline market. We first argue that the seminal clearinghouse models by Varian(1980) and Stahl (1989) generate an inverted-U relationship between information and price dispersion. Past empirical studies of this relationship have relied on (intertemporal) variation in internet usage and adoption to measure the number of consumers that have access to the clearinghouse. We construct a new measure of information based commuter data from Austria. Regular commuters can freely sample gasoline price on their commuting route, giving us spatial variation in the share of informed consumers. We use detailed information on gas station level price to construct various measures of price dispersion. Our empirical estimates of the relationship are in line with the theoretical predictions.

Keywords: Search, Price Dispersion, Retail Gasoline, Commuter Data

*Austrian Institute of Economic Research
†University of Mannheim, also affiliated with CEPR, CES-Ifo, and ZEW
‡Vienna University of Economics and Business
§Vienna University of Economics and Business