

The Propensity to Advertise Price Online: Evidence from Shopper.com*

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November, 2003
Preliminary and Incomplete

Abstract

Price dispersion in online markets is well documented. However, an open empirical question is how frequently do firms advertise prices in online markets? The current paper addresses this question by examining the frequency with which firms advertise price information at one of the leading Internet price comparison sites, Shopper.com. The results are consistent with many of the predictions in Baye-Morgan (2001) who show that firms randomly advertise prices and the level of advertised price in an environment where it is costly to advertise prices to avoid the grim outcome associated with classical Bertrand competition. Specifically, the empirical results suggest that firms advertise price information about 69 percent of the time. In addition, firms are 13 percent less likely to advertise price information in markets with few consumers. While these results are supportive of the Baye-Morgan model, I find little empirical evidence supporting the prediction that firms' propensity to advertise prices varies inversely with market structure. I speculate that this result is mainly driven by asymmetries in firms' advertising propensity. This suggests that Baye-Morgan has provided a very good starting point, but that additional theoretical models are needed to see if relaxing the assumption that firms' propensity to advertise is symmetric leads to equilibrium outcomes more consistent with the data.

* I would like to thank Michael Baye for his valuable comments and guidance. I am also grateful for the comments received participants at Indiana University's Economics Department and Department of Business Economics and Public Policy seminars and seminars at the University of Wyoming and Bentley College.

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