# Non-Reservation Price Equilibria and Consumer Search

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# Contribution

Develops a version of the Stahl model with asymmetric information about production costs.

Existence and structural properties of non-reservation price equilibria.

Reservation price equilibria:

- can fail to exist
- are deleted by the divinity refinement
- are inconsistent with recent empirical work
- currently do not involve active search.

# Contributions

In "gap" equilibria an intermediate price may reveal that cost is low so buyers will keep searching for even lower prices whereas at high prices buyers infer that cost is high and buy.

This failure of the reservation price property under sequential search may be consistent with the evidence in De Los Santos, Hortacsu, and Wildenbeest (2012).

Does this mean that demand is not downward-sloping as suggested by Bénabou and Gertner (1993)?

# Discussion

Asymmetric information about costs does not seem to be a prominent feature of the online book market.

Retail gasoline is one market where consumers may think about supply shocks. Any others?

Maybe the model can also be motivated in terms of uncertain demand which may be more relevant in some markets.

# Discussion

The duopoly assumption is a serious limitation which precludes structural work in many cases.

Bénabou and Gertner are also unable to move beyond this case even with the reservation price property.

Dana (1994) allows $n \geq 2$ firms has to assume all-or-nothing search.

The problem is Bayesian updating twice.

# Discussion

The Stahl model falls apart when there are cost heterogeneities (as do other models with mixed-strategy equilibria).

We can only think about aggregate and not idiosyncratic shocks as in Benabou and Gertner.

# Discussion

In this model uncertainty can increase search and competition and lower prices.

This effect was previously identified by Benabou and Gertner.

In their model an increase in uncertainty increases search when the search cost is low and reduces it when the search cost is high.

In this model we have only the first effect. Why?

# Discussion

In actual markets prices are not the only available signals.

Would it be welfare-improving in this model to suppress additional information about cost?

# Assessment

An interesting and novel paper, especially in its use of refinements.

The proofs are careful and instructive and greatly increased my understanding of the paper.