

15.567 Reading Guide

Session 5: Search and Competition

“Price dispersion is a manifestation – and indeed, it is the measure -- of ignorance of the market” --George Stigler, Nobel Laureate in Economics

The Internet and other information technologies are profoundly affecting the quantity and quality of information available to consumers. How is this affecting competition?

Readings

Smith, Bailey and Brynjolfsson, Erik "Understanding Digital Markets" in Brynjolfsson and Kahin, eds *Understanding the Digital Economy*, MIT Press, October, 2000.

Optional:

Bakos, Y. (1997) "Reducing Buyer Search Costs: Implications for Electronic Marketplaces." *Management Science*, Volume 43, Issue 12 (December 1997), 1676-1692

Brynjolfsson, E. and Smith, M. (2000) "Frictionless Commerce? A Comparison of Internet and Conventional Retailers" *Management Science*, Vol. 46, No. 4 (April 2000), pp. 563-585

URLs

<http://www.pricegrabber.com/>

<http://www3.dealtime.com/>

<http://www.expedia.com/>

<http://www.mysimon.com/>

<http://www.redlaser.com/>

Study Questions

Please think about the following questions as you do the readings. Be prepared to defend your answers in class.

1. Before class, search for a consumer product like an iPod at Amazon, eBay and one of the shopping agents above. What is the range of prices you encounter?
2. How do search costs affect pricing and competition? How have search costs changed in recent years? Does your answer differ for consumer vs. business-to-business markets?
3. Do you normally use price comparison engines when you shop? If not, why not? If yes, for what products or services do you find them most useful?
4. Has the Internet made branding more or less important? Looking ahead 5 years, how would your answer change?
5. With smart mobile phones proliferating, it is increasingly possible to do real-time price and feature comparisons anywhere and at anytime. How will this affect competition? Who will win, who will lose and who will need to change?
6. As both sellers and buyers get better tools for pricing and price discovery, who will win? How will competition change?

MIT OpenCourseWare
<http://ocw.mit.edu>

15.567 The Economics of Information: Strategy, Structure and Pricing
Fall 2010

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.