

Seminário

***“Price Competition when Consumers have Limited Foresight:
Evidence from Driving School Fees in Portugal”***

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Sumário: *This paper empirically investigates the add-on pricing behavior of firms in the Portuguese market for driving instruction. We develop a framework along the lines of Gabaix and Laibson (2006) where consumers purchase a base and, with some probability, an add-on product from the same firm, but are not always aware of the possible need for the add-on product. We show that a typical loss-leader pricing strategy emerges in horizontally differentiated markets whereby markups on the base product are artificially lowered, while firms price the add-on at monopoly levels. We test the implications of the model using a detailed snapshot of industry data on student characteristics and preferences, school attributes including prices and costs, and market demographics for a cross-section of local markets with differing numbers of school competitors. We find significant evidence in support of our model predictions, including that firms face a substantial profit motive in the add-on market. Most notably, markups for the base product, but not the add-on products, decline in the number of competitors a firm faces, a prediction that has not been established in the literature to date.*

(Artigo conjunto com Profs. David Muir & Katja Seim)

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