

David Muir – Abstract

Price Obfuscation and Consumer Search: An Empirical Analysis

Firms affect consumer demand not only through their pricing decisions, but also through the ways in which they release price information to consumers. Non-uniform price schedules or the inclusion of complex pricing elements hinder comparison shopping, possibly eliminating products from consideration for purchase. We study the effect of such price complexity on consumer search and demand in the Portuguese market for driving instruction where advertising and standardized reporting of prices is rare. Using hand-collected data on price information released to customers, we find evidence consistent with complexity creating search frictions: price dispersion and markups are higher in markets where firms provide complex price breakdowns. We estimate a model of demand under limited price information in which the composition of students' product consideration sets depends on our measure of complexity and other search costs. We find that complexity significantly increases search costs statistically and economically, limiting the size of students' consideration sets. A model without complexity fits the data less well and biases estimates of consumers' price responsiveness downward. Price complexity thus serves to obfuscate, rather than inform, consumers.