Zone Pricing in Retail Oligopoly

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Proposal Description:

Multi-store retailers have the ability to offer different prices based on the geography of their stores. They sometimes do, but often only to a limited extent. This is observed in home improvement retailing, where the large retail chains charge different prices nationally but opt not to set prices store-by-store or even by market. Instead, prices are assigned to zones spanning several markets that differ in significant ways. If these firms were monopolists, this would represent a missed opportunity to price discriminate and increase profits. With competitive interaction, however, price discrimination has an ambiguous effect on both profits and consumer welfare.

The existing literature on zone pricing has found the potential for large gains in profit by adopting finer pricing. However, due to data limitations, the existing literature had to abstract from the competitive interaction of firms. The theory literature suggests that this abstraction may even yield the incorrect sign on profit and consumer surplus changes. In this paper, we evaluate the welfare consequences of third degree price discrimination in retailing, accounting for the competitive interaction. We develop an empirical analysis of retail zone pricing and apply it to new data gathered on the home improvement industry.

Requisite Skills and Qualifications:

We are looking for an RA to help us conduct exploratory data analysis, program and run optimization code, and/or create maps in ArcGIS. The RA should have experience with Stata, Python, Matlab or ArcGIS.

Award: Nicolas Jimenez '19
Project Type: Tobin RA
Tobin Application Link: Tobin Application

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