Abstract

We study consumers' search and purchase decisions on an Internet platform. Using a unique data set on all adverts posted and transactions made on a major French Internet platform (PriceMinister), we show evidence of substantial price dispersion between adverts for the same product. We also show that consumers do not necessarily choose the cheapest advert available and sometimes even choose an advert that is dominated in price and non-price characteristics (such as seller's reputation) by another available advert. To explain the transactions observed on the platform, we derive and estimate a directed search model where consumers can observe all advert prices but have to pay a search cost to see the other advert characteristics. We allow for heterogeneity in consumers' preferences and search costs and identify the sets of parameters that can rationalize each transaction. We find that whilst many transactions are consistent with a perfect information model with preferences for non-price characteristics, we need strictly positive search costs to explain a large share of transactions. We thus find empirical evidence of the presence of consumer search costs on the Internet.

Keywords: Consumer Search, Price Dispersion, Heterogenous Preferences, Internet.

JEL Codes: C13, D12, D81, D83, L13