

Browsing versus Studying Offers*

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Abstract

We introduce a simple model of a market in which consumers must make tradeoffs between “browsing” more products superficially, and “studying” fewer products in detail. Each firm chooses two price components, a headline price and an additional price, and specifies conditions under which a consumer can avoid the additional price. Each consumer can either fully understand the offer of one firm (studying), or look at only the headline prices of two firms (browsing). In equilibrium, high-value consumers browse and pay the additional price, but low-value consumers study to avoid the additional price. Although high-value consumers pay higher total prices, the average price consumers pay is *decreasing* in the share of high-value consumers. This result is consistent with evidence that a number of essential products are more expensive in lower-income neighborhoods, and our model also helps explain why entry into such neighborhoods does not solve the problem. More importantly, our framework generates a novel and powerful competition-policy-based argument for regulating the additional price or other secondary product features. In contrast to existing arguments that such regulations may be ineffective or even distortionary, we show that they have a multiplier effect: because consumers do not need to worry about the regulated feature, they do more browsing, enhancing competition. In many situations, the increase in competition also increases efficiency, but we identify a class of situations in which there is a tradeoff between competition and efficiency.

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