SMALL PRICE RESPONSES TO LARGE DEMAND SHOCKS

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Abstract

We study the pricing response of U.S. supermarkets to large demand shocks triggered by labor conflicts, mass population displacement, and shopping sprees around major snowstorms and hurricanes. We find that these large swings in demand have, at best, modest effects on the level of retail prices, consistent with flat short- to medium-term supply curves. This finding holds even when shocks are highly persistent and despite the fact that stores adjust prices frequently. We also provide evidence that retailers maintain frequent promotional sales even as their demand varies and that they seek to match movements in their local competitors’ recourse to promotional sales. (JEL: E30, L11)

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