

# PRICE SETTING IN ONLINE MARKETS: DOES IT CLICK?

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## **Abstract**

Using a unique dataset of daily U.S. and U.K. price listings and the associated number of clicks for precisely defined goods from a major shopping platform, we shed new light on how prices are set in online markets, which have a number of special properties such as low search costs, low costs of monitoring competitors' prices, and low costs of nominal price adjustment. We document that although online prices change more frequently than offline prices, they nevertheless exhibit relatively long spells of fixed prices. By many metrics, such as large size and low synchronization of price changes, considerable cross-sectional dispersion, and low sensitivity to predictable or unanticipated changes in demand conditions, online prices are as imperfect as offline prices. Our findings suggest a need for more research on the sources of price rigidities and dispersion, as well as on the relative role of menu and search costs in online-pricing frictions. (JEL: E31, L11, L86)

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