Imperfect Information

- Internet Efficiency View
  - Online competition => lower and homogenous prices?
  - Bertrand Assumptions

Internet Efficiency View – Price competition, location irrelevant, zero economic profit, consumers have complete information.

But, we do see price dispersion…. Mention price dispersion, menu costs.

Imperfect Information

- *Imperfect Information in the Product Markets (Stiglitz) and Bargains & Ripoffs: A Model of Monopolistically Competitive Price Dispersion (Salop and Stiglitz)*
- Traditional/Classical Theory
- The Law of Single Price – Bertrand marginal pricing result
- How to account for price differences?
- Key Assumption?
- Key contention of paper?

Imperfect Information

- Imperfect Information and costly to obtain.
- Imperfect Information => Market Power => Imperfect Price Discrimination
- Imperfect Information => Price Dispersion
- Imperfect Information => Price Rigidities
- Implications of Imperfect Information on Quality and Variety.

Imperfect Information

- Imperfect Information => Market Power
  - How? Look at demand elasticity.
- Imperfect Information => Price Rigidities
  - How? Look at kinks in the demand curve. Discontinuity in the marginal revenue.
  - As number of firms increases, why might prices increase?
- Imperfect Information => Price Distribution
  - How? 2 Models.

Imperfect Information

- Imperfect Information => P>>MC. Can you take advantage of it? Will advertising help?
- Advertising one way to convey information. Other ways?
- Reputation mechanisms are effective.
- Disclosures, Certification, Guarantees.

Imperfect Information

- Implications on quality and variety of products produced.
- Imperfect information about product => poor quality? What prevents this?
- Loss of reputation > Gain from cheating
- When are reputation mechanisms effective? => P > MC. Why might this be true at equilibrium? How to make consumers 'switch'?

Imperfect Information

- Value of product variety significantly reduced by costly information.
- Large variety => Price Dispersion (Details in the paper)