Discussion
by Emmanuel Petrakis on:

A Model of Directed Consumer Search

Haan,M., J.L. Moraga-Gonzalez and V. Petrikaite
Motivation

Some of the attributes (and often the prices) of many products (e.g. cars, clothing) are observable by consumers, who are then engaged in directed search for the products’ opaque attributes.

Basic Questions

• What is the impact of such directed search on market outcomes and welfare?

• If prices are observable too, do we expect equilibrium prices to be lower or higher?

• How equilibrium prices and welfare change with search costs?
The Model

- Two single-product firms compete in prices and sell horizontally differentiated products that produce at zero cost.
- Unit mass of consumers.
- The valuation of each consumer is high enough such that he always buys a product in equilibrium (*Covered Market*).
- Each product has two components: an observable and an opaque one.
- Consumers valuations over the observable and opaque attributes of each product are their private information.
- These valuations are distributed independently and identically across consumers and firms!
- Density functions for both attributes (often) have full support and are log-concave.
The Model (cont’d)

- Each consumer conducts directed search by visiting first the firm with the product that has a higher match value for him in terms of its observable attribute.
- When prices are observable, the consumer also takes into account the price differential when choosing the first firm to visit.
- Search cost per firm is constant and equal to $s$.
- There is perfect recall which is costless.
- The equilibrium concept used is symmetric pure-strategy Nash equilibria.
Main Findings

- Equilibrium prices are lower if consumers can observe prices before search.
- A firm’s price serves as a tool to direct consumers’ search towards that firm.
- When prices are unobservable, an increase in search costs leads to higher equilibrium prices.
- In contrast, when they are observable, equilibrium prices (typically) decrease with search costs.
- Under reasonable conditions, consumer surplus may increase in search costs too. (This is especially true if search costs are not too high.)
Comments - Suggestions

✧ Very interesting topic – well written and enjoyable paper
✧ There are a few missing references from the manuscript
✧ I suggest that you start with a simple $g$ distribution: $\alpha$, $0<\alpha<1$, have same preferences over the observable attribute, and $(1-\alpha)/2$ have a better much with each firm.
✧ In such a simpler setup, one may manage to check the robustness of the main findings:
  ✧ When the market is uncovered
  ✧ When product valuations are not distributed independently and identically across consumers and firms
  ✧ When there are capacity constraints (Cournot competition?)
✧ What happens if firms are asymmetric? Which firm sets a lower price?
Comments - Suggestions