



KATHOLIEKE UNIVERSITEIT LEUVEN

Statistics and Econometrics Seminar

Joint organization by
ORSTAT, Faculty of Business and Economics and the Statistics Research Group,
Faculty of Science
Leuven Statistics Research Center

Prof. Dr. Zsolt Sandor

Faculty of Economics and Business, University Groningen, Netherlands

“Consumer search and prices in the automobile market”

Thursday, February 17, 2011

12.00–13.00h

Location: Room HOG 03.101, Naamsestraat 69, Leuven.

Supporting research project: GOA-project 2007/04

Abstract. In many markets consumers only have imprecise information about the alternatives available. Before deciding which alternative to purchase, if any, consumers search to find their preferred products. This paper develops a discrete-choice model with optimal consumer search. Consumer choice sets are endogenous and therefore imperfect substitutability across brands does not only arise from variation in product characteristics but also from variation in the costs of searching alternative brands. We apply the model to the automobile industry using aggregate data on prices, market shares, as well as data on dealership locations and consumer demographics. Our estimate of search cost is highly significant and indicates that consumers conduct a limited amount of search. The paper shows that accounting for search cost and its effect on generating heterogeneity in choice sets is important in explaining variability in purchase patterns. This is joint work with José Luis Moraga-González and Matthijs R. Wildenbeest.