

# The Price of Distance: Producer Heterogeneity, Pricing to Market, and Geographic Barriers

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## **Abstract**

This study investigates the distance effect on price differences across regions. In order to identify the distance effect, we need to incorporate producer heterogeneity and pricing-to-market behavior. Because geographic barriers alter the threshold levels of productivity to set a positive price across markets, the effect of distance on price differentials can be underestimated without accounting for heterogeneity and pricing to market. By incorporating these factors, empirical analysis using microlevel data reveals that the distance effect is found to be significantly large, suggesting that the price of geographical barriers is still high for regional transportation.