

Consumer Search Costs, Local Concentration, and Retail Gasoline Pricing: Evidence from a Japanese Inland Area

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Abstract

We examine determinants of retail transaction and list pricing using cross-sectional data of gas stations in a Japanese inland area. The originality of this paper is twofold: we focus on a Japanese inland area where gasoline prices at nearby stations should be theoretically identical; and this study analyzes retail gasoline pricing not only among stations, but also within stations. Our empirical analysis produces three convincing results. First, gasoline prices are negatively correlated with the intensity of the local concentration of gas stations. Second, prices should be set higher when an increase in consumers accompanies an increase in the number of stations. Third, gas stations should set list prices that include markups based on station locations and physical station characteristics; and they should charge different markups for differentiated gasoline, based on local concentration and station locations. These findings suggest that consumer searches should include the important role of retail pricing. Credible information about current prices could decrease consumer search costs for gas stations with lower prices and could decrease gasoline prices, resulting in possible welfare improvement.

Keywords: consumer search cost, Japanese inland area, local concentration, retail gasoline pricing

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