LONG RUN PRICE OR VARIETY CONVERGENCE?

Fernando Borraz and Leandro Zipitria

Discussant: Jacopo Timini (BdE)

XXIV MEETING OF THE CENTRAL BANK RESEARCH NETWORK
Madrid
31 October 2019

INTERNATIONAL ECONOMICS AND EURO AREA
FOCUS OF THE PAPER

• The paper deals with the well known “Law of One Price” (LOOP) for goods sold in retail stores
  → With free competition in the markets, no trade restrictions and price flexibility
  → Price of identical goods in different markets should be the same (after taking the currency exchange into consideration)
  → Otherwise arbitrage opportunities arise.

• However, new perspective: LOOP, arbitrage opportunities not only from competition among stores, but also from competition among similar products in the same store
• The authors estimate equations for both price levels and convergence and focus on the effect of “variety”, differentiating between “competitors” (i.e. goods within the same “market” produced by different firms) and “brands” (goods within the same “market” produced by the same firm).

• Result 1: Both “competitors” and “brands” affect negatively the price level (effect also similar in size).

• Result 2: Both “competitors” and “brands” are the drivers of price convergence (effect also similar in size).
• The research question is very relevant. Are there factors (other than “classic” market integration determinants) influencing price convergence? What is their relative importance?

• What happens to market integration in Uruguay?

• The paper focuses on product variety (stating that is the main driver of convergence), but it is relatively silent on other “classic” determinants of price levels and convergence.

• For example, the data source you use is from a website that aims to make it easier for consumers to compare price across shops. What is its role in promoting price convergence? I understand you control for shop-time FE, but does it have heterogeneous effects at the product or geographical level? Internet access in Uruguay approx. 41% in 2008, 83% in 2016 – high income/higher end products vs. low income/lower end products?

• There are significant changes in the number of shops that are in the sample. Does it matter the number of stores that sell product “p” close to the shop “i” (variation at the product-shop-time level)?
• How representative is the sample both in terms of stores and products?

  • There are less than 400 grocery shops in the country. How many in total? And how those that are not in the sample can interfere with the estimations? (Nordea estimates at around 10,000?)

  • How the existence of other products (other than those reported, max. three per “market”) may affect the estimations?

• Both “competitors” and “brands” have the same effect. What does it mean? Can you elaborate further from an economic perspective? (i.e. what are the incentives of the same producer to have one more variety?)

• “Relevant market” is not an easy definition, it would help a longer discussion
THANKS FOR YOUR ATTENTION