PRSE
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Seminar in Economics

ABSTRACT:

Competition and Collusion in List Prices

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26 May 2020 from 02.15-03.45 p.m.
via Zoom

This article presents a duopoly model where the firms set list prices before granting discounts. The products are horizontally and vertically differentiated, and the buyers are incompletely informed about product quality. The model suggests that list prices are informative about quality for buyers, who can implement a separating equilibrium by rationally building expectations about quality as if they were subject to behavioral biases, i.e., anchoring and loss aversion. The model is also concerned with list price collusion showing that, despite making agreements on list prices only, the firms can raise the discounted prices even if they continue granting discounts non-cooperatively.

Interestingly, list price collusion is sustainable even in the stage game and without monitoring or sanctioning schemes.