Revisit Price Dispersion: How Do Transaction Prices Differ from Listing Prices?

Abstract

Price dispersion of a homogeneous product reflects market conditions and has significant implications on potential pricing strategies. Two different perspectives, the demand perspective and the supply perspective, can be adopted to examine this phenomenon. The former focuses on transaction prices that consumers actually pay to obtain the product, while the latter uses listing prices proposed by sellers. However, no prior research has adopted both perspectives in one study, so it is unclear whether analyses from different perspectives will generate the same insights. Using a unique data set collected from an online C2C market, we find that dispersion of listing prices is three times higher than dispersion of transaction prices. More interestingly, drivers of price dispersion differ significantly between listing data and transaction data. Dispersion of listing prices reflects sellers’ perception of the market environment and their pricing strategies, but it does not fully capture consumer behavior manifested through varying transaction prices. Our study raises the caution that the extent of price dispersion and the relationship between economic primitives and price dispersion are sensitive to the type of data used in individual studies.

Keywords: price dispersion, transaction prices, listing prices, asymmetry, online markets, luxury goods