Price dispersion and price ceiling in a price regulated industry: gasoline retailing in Colombia

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Abstract

In this work, we study the dispersion of retail gasoline prices in small

municipalities in Colombia. These markets are characterized by having a non-binding maximum price regulation. We analyze how the dispersion of prices and distance from the non-binding maximum price respond to variations in wholesale costs. We analyze how the predictions of the consumer search or tacit collusion theories explain the data. The two theories contradict each other in their predictions. Our results show that there is evidence in favor of consumer search models; that is, when there are increases in wholesale costs, price dispersion tends to decrease. On the other hand, we find evidence that the price ceiling does not act as focal points at which stations can collude, as tacit collusion models predict.