# Price Dispersion and Wholesale Costs Shocks in the Colombian Retail Gasoline Markets

JOURNAL OF INDUSTRY, COMPETITION AND TRADE
**Número:**
22
**DOI:**
https://doi.org/10.1007/s10842-024-00434-5
**Publicado:**
Sábado, 7 Diciembre 2024
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**Clasificación JEL:**
D82, D83, Q49, L11, L94
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- ABSTRACT

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## ABSTRACT

Price dispersion is a prevalent feature even in markets where, arguably, homogeneous goods are traded. At the heart of the causes of price dispersion lie the firms' strategic interactions with their customers and rivals. Consumers' eagerness to search for lower prices tends to reduce dispersion because it enhances competition. On the other hand, the firm's inability to sustain tacit collusion increases price dispersion. Wholesale cost shock can impact both. We use data on retail gasoline markets from Colombia to assess whether changes in price dispersion following wholesale cost shocks are explained by consumers searching or by firms breaking away from collusive equilibria. We also use a forced divestiture case to explore the

role of market structure on the extent of price dispersion. Our findings suggest that changes in price dispersion following wholesale cost shocks are driven by consumers searching more intensely for lower prices. We also find a positive relationship between the number of brands in a market and how dispersed prices are.