

Study: Immigration can lower prices of consumer products

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An important new study examines how immigration influences the prices of consumer goods. The study, forthcoming in the *Journal of Political Economy*, challenges the predictions of the perfectly competitive model – that an increase in demand leads to higher prices. Instead, the study finds that immigration can lower the prices of food, clothing, furniture, and appliances and have a significant moderating effect on inflation.

Immigration to Israel from the Former Soviet Union (FSU) increased dramatically in 1990, growing from about 1,500 immigrants a month in October 1989 to about 35,000 a month in December 1990.

Using the large variation in the number of new immigrants across Israeli cities (e.g., some Arab towns reported no new immigrants from the FSU), Saul Lach (Hebrew University of Jerusalem and the Centre for Economic Policy Research), compared the relative size of the FSU immigrant population with monthly, store-level prices for 915 products. These products were sold in more than 1,800 retail stores in 52 Israeli cities during 1990.

Controlling not only for native population size and overall city size, as larger cities may have more competitive markets, but also for the effects of religious holidays on prices during a certain month, Lach finds that a one percentage point increase in the ratio of immigrants to natives in a city decreases prices by 0.5 percentage points on average.

In other words, prices in a city with an average proportion of new immigrants were 2.6 percent lower in December 1990 than in cities where no immigrants settled.

While the effect was consistent for almost all product categories, Lach found that the immigration effect was significantly stronger for products for which FSU immigrants constituted a larger share of the market, such as pork and vodka.

As Lach argues, newly arrived immigrants may be more price sensitive because of lower income and lack of brand loyalty. Immigrants, who may initially be unemployed, may also have more time to compare prices, and stores will tend to lower their prices to attract these new customers.

Source: University of Chicago

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