

Gasoline stations set prices to match a small number of other stations

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For many years, there have been competition concerns regarding how retail gasoline prices are set in the U.S. and Canada. Consumers have complained about the perceived uniformity of retail gas prices and the perception that retailers raise their prices at the same time. A new study in *Economic Inquiry* shows that to a large extent, gas stations do set prices to match a small number of other gas stations. However, these stations are not necessarily the closest in distance.

Benjamin Atkinson, Andrew Eckert, and Douglas S. West collected regular-grade gasoline prices every two hours over 103 days for 27 stations in Guelph, Ontario.

Results indicate, consistent with an informal theory of competitive gasoline pricing, that stations did tend to set prices to match a small number of other gas stations. The stations, however, were not necessarily the closest. Instead, price movements of stations within the same chain are often highly correlated, suggesting that certain stations' prices are only indirectly dependent on rival stations' prices.

Also, while some stations often respond to price changes of another station within two hours, many take considerably longer to respond.

In addition, while price decreases do ripple through the market like falling dominos, the order in which stations increase prices appears to be more strongly associated with the location and source of price control than with proximity to the leaders of these increases.

"Our results suggest that the stylized facts that the competitive theory was designed to explain are an oversimplification of how retail gasoline prices are actually set," the authors conclude. "Competition authorities should be hesitant to accept the competitive model of gasoline pricing without a full analysis of pricing in other retail gasoline markets."

Source: Wiley

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