Existence and Persistence of Price Dispersion: 
an Empirical Analysis

by

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Abstract

Using a unique data set on store-level monthly prices of four homogenous products sold in Israel we study the existence, characteristics and persistence of the dispersion of prices across stores. We find that price dispersion across stores is prevalent and differs across the four products in reasonable ways. We also find that price dispersion prevails after controlling for observed and unobserved product heterogeneity. In addition, intra-distribution mobility is significant: stores move up and down the cross-sectional price distribution. Thus, consumers cannot learn about stores that consistently post low prices. As a consequence, price dispersion does not disappear and persists over time as predicted by Varian's (1980) model of sales.