Search and Prices: 
Evidence from the FSU Immigration to Israel

By

Saul Lach
The Hebrew University of Jerusalem, CEPR and NBER

Abstract

This paper exploits the unexpected arrival of 200,000 FSU immigrants to Israel during 1990 to test the prediction that search lowers prices. The underlying assumption is that immigrants search for lower prices more intensively than natives. The main empirical finding is that, controlling for the selection of immigrants into cities and for population size, immigration has a moderating effect on prices during 1990. A 1 percentage point increase in the share of immigrants in a city decreases prices by about 1.6 percent, holding city population constant. The negative effect of immigration is strongest in products where large increases in demand are associated with the arrival of FSU immigrants, and during the second half of 1990 when the monthly flow of immigrants picked up. These results support the search-based interpretation of the estimated immigration effect.