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Evolving market structure: An ACE model of price dispersion and loyalty $\hat{\alpha} \dagger$

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Abstract

We present an agent-based computational economics (ACE) model of the wholesale fish market in Marseille. Two of the stylized facts of that market are high loyalty of buyers to sellers, and persistent price dispersion, although it is every day the same population of sellers and buyers that meets in the same market hall. In our ACE model, sellers decide on quantities to supply, prices to ask, and how to treat loyal customers, while buyers decide which sellers to visit, and which prices to accept. Learning takes place through reinforcement. The model explains both stylized facts price dispersion and high loyalty. In a coevolutionary process, buyers learn to become loyal as sellers learn to offer higher utility to loyal buyers, while these sellers, in turn, learn to offer higher utility to loyal buyers as they happen to realize higher gross revenues from loyal buyers. The model also explains the effect of heterogeneity of the buyers. We analyze how this leads to subtle differences in the shopping patterns of the different types of buyers, and how this

is related to the behavior of the sellers in the market.



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