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# The impact of shopbot use on prices and price dispersion: Evidence from online book retailing

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### Abstract

Internet price search tools, notably shopbots, have reduced consumers' search costs for price and product characteristics. While a variety of analytic models predict that increased consumer search will lower price levels among competing retailers, there is no consensus in the literature as to how price dispersion will change with increased consumer search. Moreover, there are no papers that have empirically tested these predictions using direct observation of variation in shopbot use over time.

This paper examines the impact of changes in shopbot use over time on pricing behavior in the Internet book market. We do this by combining price and clickstream data collected from August 1999 to July 2001 – a period of rapid expansion in shopbot use. We find that a 1% increase in shopbot use is correlated with a \$0.41 decrease in price

levels and a 1.1% decrease in price dispersion.



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## JEL classification

D40; L11

## Keywords

Search cost; Shopbot; Clickstream; Internet; Price dispersion

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