

Intermediation and Competition in Search Markets

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Motivation

What are the effects of intermediation in a decentralized market?

- ◀ New data from the New York City trade waste industry.
- ◀ The large number of suppliers + prices are individually negotiated between customers and carters → the search process is costly for buyers.

Findings

- ◀ Make a contribution to the literature by introducing a new search model, which considers idiosyncratic service costs from the sellers.
- ◀ Direct effect: Buys contract with intermediaries benefit from better "search technology", thus lower their search cost.
- ◀ Indirect effect: Search externalities. Self-selection of high search costs buyers into the intermediated market changes the composition of buys in the search market, making it more competitive so sellers would lower the price.
- ◀ Welfare effect: improve overall welfare by reducing search costs and reallocating contracts to lower-cost suppliers.

Discussion

- ◀ This paper abstracts from broker competition. A more complex model might be introduced to account for this.
- ◀ This paper restricts the data to only contain consumers who contract with sellers for at least two years, therefore it abstracts from the dynamic decisions of consumers for changing contracts. This restriction could be relaxed in future research.
- ◀ This paper assumes all sellers offer the same quality of service and consumers pick the one with the lowest price. Future research could be done by adding quality differentiation to the model.