



# Intermediation and Competition in Search Markets: An Empirical Case Study

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Salz (2022)

## Motivation

- Intermediaries are commonly found in markets with search frictions, but there is little systematic empirical evidence on how they influence market outcomes.

## Research Question

- In the context of a decentralized market, how does intermediation affect market competition and welfare?

## Main Elements

- New data from the New York City trade waste industry collected by a regulator that monitors carters activities.
- Setup and estimation of a new empirical model that combines elements from the empirical search and auction literatures.
- Perform counterfactual analysis comparing scenarios with/out intermediaries.

# Main Findings

- Reduced form evidence of importance of search frictions in the waste trade market.
- Intermediaries directly benefit through selection on search costs, and indirectly through an externality coming from changing the buyers composition.
- Estimates suggest that search costs make up a significant percent-age of buyers'total expenses, ranging from about 8% to 15%.
- In a counterfactual without brokers
  1. expenses for buyers who were using brokersrise on average by \$445 (11.7%) annually
  2. in the search market expenses for buyers who were already searching by themselves rise on average by \$64 (2.5%)
  3. overall, intermediaries redistribute rents from sellers to buyers and improve welfare by reducing search costs and by reallocating contracts to lower-cost suppliers.

- Extremely clear, I could understand most of it from a first read (which at least to me is not obvious).
- The level of detail and precision makes the paper replicable just by looking at the published version.
- Very intuitive and well-explained identification strategy, especially how and why we need the first assumption.
- Normality of unobserved distributions. I understand that imposing a functional form helps a lot with the estimation, but I am not sure whether common sense might hold in such a circumstance.
- I appreciate the fact that he is explicit in mentioning potential drawbacks.
- Uniqueness of equilibria. Reminds me of what papers do when estimating dynamic games, but do we have results here?