

Unraveling Price Stickiness: Evidence from Daily Gasoline Prices in Seoul, Korea

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Abstract

Stickiness in retail prices has been well-documented empirically, while economic explanations of the phenomenon are still debated in macroeconomics and industrial organization. This study investigates price stickiness using daily prices of gasoline stations in Seoul, Korea. It finds that stations change prices infrequently and that the infrequent adjustments follow both state-dependent and time-dependent patterns. Stations with greater local market power tend to favor the time-dependent pricing rule, resulting in price changes at regular intervals. These empirical findings contribute to our understanding of price stickiness, offering insights from both the perspectives of industrial organization and macroeconomics.

JEL classification: Q40, D40, L10

Keywords: Retail price, Sticky price, Gasoline market, Time-dependent pricing, State-dependent pricing

1 Introduction

Retail pricing is a topic of significant interest and has been thoroughly examined across various fields of economics due to the direct connection between the retail sector and consumers' purchasing behaviors, with changes in its market structure directly impacting consumer welfare. In the industrial organization, extensive research has been dedicated to understanding the dynamics of retail pricing, particularly with a focus on uncovering the role of market structure and strategic interactions among retailers. This body of work serves as a crucial

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tool for shaping regulatory policies and fostering competition in markets. In the field of macroeconomics, the investigation of retail pricing is instrumental in shedding light on how retailers transmit cost shocks to retail prices. Such studies make contributions to predicting the dynamics of inflation and play an important role in guiding the conduct of monetary policy.

One consistent feature of retail pricing is infrequent and often periodic and lumpy pattern of price adjustments, even when the factors influencing pricing decisions continuously evolve in terms of time and magnitude. Different economic explanations have emerged in distinct areas of research. In the macroeconomics, the term ‘sticky prices’ was initially introduced, and various theories have been proposed to account for this phenomenon. Models of periodic retail changes are grouped into state-dependent (hereafter SD) models ([Caplin and Spulber \(1987\)](#)) and time-dependent (hereafter TD) models ([Taylor \(1980\)](#); [Calvo \(1983\)](#)). In time-dependent models, the probability of a price change in the current period depends on the duration of maintaining the previous price. In state-dependent models, the decision to change the price depends on the cost or demand shocks that the firm is currently facing and anticipates in the future.

[Alvarez, Lippi, and Passadore \(2017\)](#) note for profit maximizing retailers, SD models are optimal when there is a fixed cost in changing price (e.g., menu cost, see [Barro \(1972\)](#)), while TD models are optimal when there is a fixed cost in acquiring information (which results in rational inattention, [Sims \(2003\)](#), [Reis \(2006\)](#)). These models depict different mechanisms on how changes in cost pass through into retail price and predict different dynamics of prices.

In the industrial organization, researchers have focused on the role of market structure and strategic interaction between firms. For example, [Carlton \(1986\)](#), [Dixon \(1983\)](#), [Neumark and Sharpe \(1992\)](#) and [Slade \(1999\)](#) have furnished empirical evidence indicating that prices exhibit greater rigidity in concentrated markets compared to prices in competitive markets. [Athey, Bagwell, and Sanchirico \(2004\)](#) and [Garrod \(2012\)](#) have provided theoretical frameworks that establish links between price rigidity and collusive behavior. The retail

and wholesale gasoline markets have received particular attention in this context, as they offer advantageous settings for investigating infrequent price adjustment behavior. These studies have contributed to building substantial evidence supporting the relationship between price rigidity and the strategic interactions among firms in these markets ([Borenstein and Shepard \(2002\)](#), [Davis and Hamilton \(2004\)](#), [Noel \(2007\)](#), [Douglas and Herrera \(2010\)](#), [Jiménez and Perdigüero \(2012\)](#), and [Clark and Houde \(2013\)](#)).

Because menu cost, information acquisition cost, and strategic interactions between firms are empirically relevant, how retailers change prices is an empirical question. However, consensus remains elusive in the existing literature. [Klenow and Kryvtsov \(2008\)](#) show that neither SD nor TD models explain all patterns in changes of consumer prices cross products in CPI categories. The frequency of price changes differs widely by types of goods.¹ Most studies in industrial organization do not favor the idea that costly adjustments make prices sticky. Specifically, [Borenstein and Shepard \(2002\)](#) reject the menu cost interpretation for sticky price, and attribute the infrequent price adjustment to firms’ market power. [Davis and Hamilton \(2004\)](#) and [Douglas and Herrera \(2010\)](#) reject the menu cost and information processing delay theories. They propose that the strategic interaction between buyers and sellers in determining ‘fair pricing’ is a key factor in explaining the persistence of sticky price.²

However, in a setting where many retailers sell different bundles of goods in different markets, a mixed pattern of pricing may stem from the heterogeneity in unobserved factors that influence pricing. For instance, changes in variable costs may vary among retailers and/or goods, remaining unobserved by researchers. The lack of comprehensive data on the drivers of price changes makes it challenging to estimate and analyze pricing rules. Furthermore, the three aforementioned studies in the field of industrial organization primarily focus on

¹Across the retail industry, [Nakamura and Steinsson \(2008\)](#) estimate the median frequency of price changes to be between 7 and 11 months, considering the presence of product substitutes. Without considering product substitutes, the estimate of frequency falls within the range of 8 to 11 months.

²Theoretical models that explain how consumers’ search behavior and the potential for punishment influence sellers’ pricing behavior can be found in [Cabral and Fishman \(2012\)](#).

the wholesale gasoline market to explore firms' pricing behaviors. This specialization raises caution against generalizing specific phenomena observed in a particular market. Indeed, the wholesale gasoline market possesses distinct characteristics compared to other retail markets, especially regarding the number of firms and their customer base.

This study analyzes the daily prices (in Korean won per liter) of gasoline stations in the Seoul market of Korea from 2009 to 2019. The purpose of the study is to investigate the pricing behavior of retailers, specifically whether they adhere to SD rules or TD rules, in order to explore the connection between these rules and local market power. There are three key advantages to focusing on the retail price of gasoline in this study. First, the price of gasoline is less noisy than prices of retail goods that are occasionally discontinued out of season, or that exhibit varying quality. Second, the fact that I observe daily variations in the Korean wholesale gasoline price, a key variable cost that gasoline retailers commonly face, enhances our ability to contrast SD models against TD models. Lastly, industry-specific information on the nature of the cost of price changes provides additional economic insight into infrequent price changes. Unlike most retailers that sell a wide variety of items, gasoline stations can update prices with practically zero menu cost. To explain infrequent price changes, I must identify alternative sources of cost in adjusting prices.

I employ a logit model to investigate how the likelihood of price changes relates to variables representing both SD and TD pricing rules, as well as factors indicating the level of competitiveness within the local market. The estimation results reveal that gas stations do not rely solely on a particular pricing rule but instead utilize both SD and TD pricing rules in their pricing decisions.

Additional analysis reveals the relationship between market power and pricing rules. Specifically, I do not find any evidence of varying responses to cost changes among different subgroups defined by variables that proxy for market power. It's important to note that cost shocks are treated as random events and are given to stations exogenously. This implies that market power may influence the magnitude of cost pass-through but not the timing

of adjustments. In contrast, stations with more local market power tend to demonstrate a more consistent pattern of price adjustments, often occurring on a weekly basis. This suggests that retailers have a stronger inclination toward the TD pricing rule. Therefore, TD pricing and strategic interactions among firms are not mutually exclusive; they are closely interconnected.

The notion that firms operating in highly concentrated industries change their prices infrequently has long been a topic of interest among economists specializing in industrial organization. Numerous studies have investigated the relationship between market power and price rigidity. However, there are relatively few studies that provide evidence for how costly adjustments affect price stickiness. In contrast, macroeconomics focuses on how costly adjustments affect price rigidity, impacting the neutrality of money and the effectiveness of monetary policy.

This study bridges the gap between the studies in industrial organization and macroeconomics by providing evidence of the relationship between market power and costly adjustments (specifically, the information acquisition cost) and demonstrates how costly adjustments indeed affect price rigidity. Thus, the implications of this study contribute to our understanding of sticky prices from both an industrial organization and macroeconomics perspective.

The remainder of the paper is structured as follows: I describe the details of the data in this study in [Section 2](#). In [Section 3](#), I first document in detail the empirical patterns of station-level daily gasoline prices. [Section 4](#) presents the estimation model that encompasses variables serving as proxies for both TD and SD pricing rules. In [Section 5](#), I show the estimation results and interpret them. Finally, I summarize this study and present conclusions in [Section 6](#).

2 Data

The data for this study were obtained from the *Oil Price Information Network (OPINET)* operated by the *Korea National Oil Corporation*. The firm collects transaction information from all retailers in Korea and publicly posts their daily prices on its website. I use the price information of 708 stations in Seoul, including the station characteristics such as the type of service, brand, and location, for the period between 2009 and 2019.

A key variable cost of gasoline is the wholesale price from *Mean of Platts Singapore (MOPS)*, which reports benchmark prices for petroleum products in the Asian market based on transactions in Singapore.³ The pre-tax wholesale price of the oil refinery company is determined by adding tariffs, mark-up, and distribution costs to the *MOPS* price, which reflects the exchange rate.⁴ *MOPS* constitutes a significant portion of the pre-tax price and is therefore used as a variable cost in this study. I consider *MOPS* to be exogenous given the relatively small share of the Korean demand in the global oil market.

I use several variables to represent the level of competitiveness within the local market where a station is situated. Firstly, I take into account the number of stations within a 1-kilometer radius. To make this variable, centered on a station, I calculate the distance for all pair of existing stations using spatial coordinates of stations and count the number of stations within a 1km radius.⁵ Additionally, I utilize monthly sales volume as a proxy for evaluating the competitiveness of local markets.⁶

³The original unit is \$/bbl, and it is provided on *OPINET* after being converted into Korean won per liter.

⁴There are four major refinery companies: *SK Energy*, *GS Caltex*, *Hyundai Oil Company*, and *S-OIL*. They operate their own brand retail gasoline stations and also have franchise stations where private owners operate under the supply agreement of the franchisor, the refinery company. The market structure of both retail gasoline stations and the wholesale market is vertically integrated. Although the method of determining the pre-tax wholesale price varies from one company to another, it mostly involves a combination of factors such as the average *MOPS* price over the past week and daily changes in *MOPS*.

⁵Stations entered and exited during the period of our data, and based on their entry and exit dates, determined by their earliest and latest transaction dates, I define a station as ‘open’ during a particular month if there is at least one transaction occurring in that month. Consequently, this variable exhibits monthly variation for each station.

⁶I calculate the monthly sales volume by dividing the district-level sales volume by the number of stations in that district.

Table 1: Summary statistics for variables

Description		Mean	SD	Min	Max
Price					
p_{it}	Retail gasoline price(KRW/liter)	1766.86	242.65	1218.00	2490.00
$ld1_{it}$	Indicator variable for price point	0.53	0.50	0.00	1.00
$ld2_{it}$	Indicator variable for price point	0.20	0.40	0.00	1.00
Cost					
C_t	Wholesale price(KRW/liter)	622.04	164.37	286.93	977.28
$ \Delta C_t $	Wholesale price change	0.62	0.78	0.00	8.92
Decision					
f_{it}	Indicator variable for $\Delta p_{it} \neq 0$	0.09	0.29	0.00	1.00
a_{it}	Duration of keeping previous price	9.31	9.24	1.00	56.00
Station characteristics					
$Self_{it}$	Type of service: self-service	0.32	0.47	0.00	1.00
$SalesVol_{it}$	Monthly sales volume	3.08	1.00	1.04	6.97
N_{it}^r	Number of stations within 1km radius	4.22	2.18	0.00	13.00

¹ Observations where a_{it} is greater than 56 are omitted because they are outliers.

² $|\Delta C_t|$, and $SalesVol_{it}$ are scaled by their respective standard deviations.

³ $Self_{it}$ is a dummy variable that indicates self-service stations. While $Self_{it}$ remains time-invariant for most stations, 82 full-service stations transitioned into self-service stations during the data period.

In Table 1, I present summary statistics for the variables used in this study, either as inputs to other variables or directly in the estimation model. The price of station i on date t is represented as p_{it} and the price change is denoted by Δp_{it} . f_{it} is used as a dependent variable in the estimation model, indicating whether stations change their prices, *i.e.*, $f_{it} = 1$ for $\Delta p_{it} \neq 0$ and $f_{it} = 0$ for $\Delta p_{it} = 0$.

One prominent feature of the data is the infrequent price adjustment. Out of a total of 2,000,904 observations, only 187,860 have $f_{it} = 1$, and its mean is 0.09. Despite the knowledge of daily fluctuations in wholesale price levels and the absence of menu costs, retailers adjust prices infrequently, with approximately 90% of the observations showing no price changes. a_{it} represents the duration for which stations maintain their previous price before changing it at time t . It is calculated as $a_{it} = t - k$ where $f_{it} = 1$, $f_{ik} = 1$ and $f_{ij} = 0$ for $k < j < t$. On average, stations change their price approximately every 9 days, with a median and mode of 7 days. Price changes appear to be infrequent but regular.

The variables $ld1_{it} = \mathbb{1}\{l_1(p_{it-1}) = 8, 9\}$ and $ld2_{it} = \mathbb{1}\{l_2(p_{it-1}) = 9\}$ are indicator variables that indicate whether the last digit of the previous price is an 8 or a 9-ending digit (9-ending for the second to last), where $l_1(\cdot)$ and $l_2(\cdot)$ are functions that provide the last and second-to-last digits of price, respectively. The mean values for $ld1_{it}$ and $ld2_{it}$ are 0.53 and 0.2, respectively, indicating that a significant portion of price points have either an 8 or 9 as the last or second to last digit. I will discuss this in more detail in [Section 3](#).

The first difference of cost, denoted as ΔC_t , is used in this study to estimate the probability of price changes in response to daily cost shocks. Asymmetric responses are not the focus of this study, so it is assumed that the response to both positive and negative cost changes is the same, and the absolute value of cost changes is used. The unit of $|\Delta C_t|$ (Korean won per liter) is approximately 0.001 USD, so I scale $|\Delta C_t|$ by dividing it by its standard deviation to provide a more meaningful interpretation of the marginal effect.

Other variables are used as proxies for the competitiveness of the local market that station i is facing. $Self_{it}$ is a dummy variable for self-service stations. In the retail gasoline market in Korea, there are two types of services: full-service and self-service. Full-service stations offer more convenience, with an employee refueling the gasoline instead of the driver, and the driver doesn't have to exit the car. However, this convenience comes at a higher price, and the prices at full-service stations are generally higher than those at self-service stations. Users of full-service stations are willing to pay a higher price for this convenience and are less price-sensitive. On the other hand, users of self-service stations are more price-sensitive, and self-service stations have less flexibility in adjusting their prices compared to full-service stations.

$SalesVol_{it}$ represents the monthly sales volume, and the rationale for employing this variable stems from the fact that, under the assumption of consistent demand, the equilibrium quantity is consistently higher in competitive markets compared to oligopoly or monopoly markets.⁷ N^r represents the number of stations within a 1km radius, and distance-based

⁷The original $SalesVol_{it}$ variable ranges from 465.6 to 3125.6, with a mean of 1382.6. To facilitate a meaningful interpretation of the marginal effect, I divide it by its standard deviation of 448.29.

measures like this one are typically used as proxies for assessing the competitiveness of local markets in several studies (see, e.g., [Barron, Taylor, and Umbeck \(2004\)](#), [Hosken, McMillan, and Taylor \(2008\)](#), [Lewis \(2008\)](#), [Houde \(2012\)](#), [Kim \(2018\)](#)).

3 Stylized Patterns of Retail Pricing

I now summarize several empirical regularities discovered in the data.

3.1 Frequency of price changes by duration or day of the week

The pricing behavior of retailers in the retail gasoline market reveals a notable pattern of price adjustments on a weekly basis. The mode and median of a_{it} are both 7 days during the 2009-2019 data period. [Figure 1](#) illustrates the distribution of the duration at the time of price change, highlighting a concentration of frequencies at multiples of 7.⁸ These observed characteristics suggest that retailers typically respond to changes in upstream prices on a weekly basis.

Furthermore, price changes exhibited a disproportionate occurrence throughout the days of the week. The majority of price changes took place on Tuesday, accounting for 28.3% of all observed price changes. Wednesday followed with 18.3%, Thursday with 15.9%, Friday with 13.6%, and Saturday with 11.4%. In contrast, Monday and Sunday registered lower proportions at 7.8% and 4.7%, respectively. In [Figure 1](#), the sum of the fractions of price changes at weekly frequency (on the 7th, 14th, 21st, 28th day) is about 30%. The disproportional numbers of price changes at the weekly frequency are related to the high numbers of price changes on Tuesdays. This might suggest a cyclicality in price changes and coordination of price adjustments.

⁸The duration is capped at 29 days in the plot. Price changes with durations beyond 28 days exhibit a similar pattern.

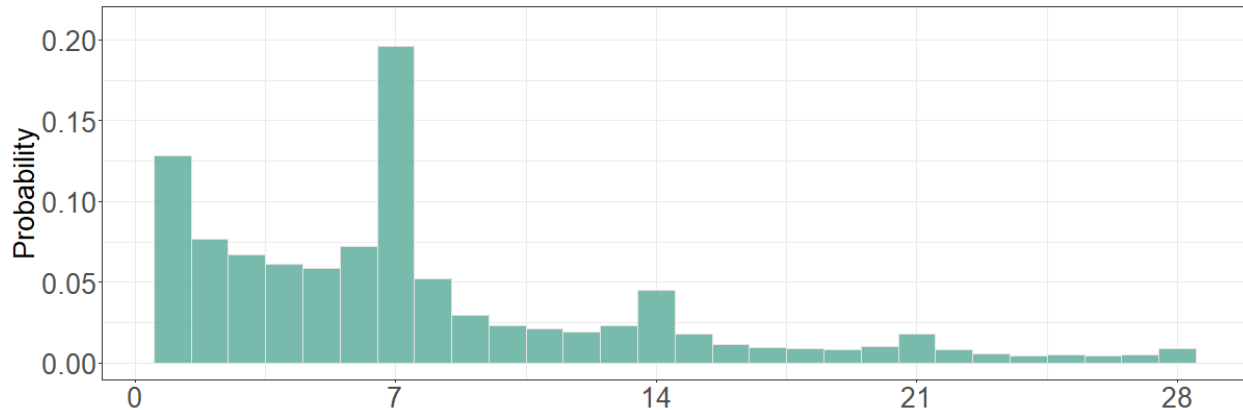


Figure 1: The distribution of a_{it}

3.2 Distribution of prices by last digit and size of price changes

The distribution of numbers in the last and second-to-last digits of retail prices also reveals distinct patterns, with retailers seemingly intentionally choosing prices that end in 8 or 9, as illustrated in [Figure 2](#). This pricing pattern has been documented in both IO and marketing literature. Some studies suggest that odd prices, especially those ending in 5 or 9, are used as focal points for tacit collusion ([Lewis \(2015\)](#)). However, most studies investigate this pattern in relation to consumers' cognition ([Schindler and Kirby \(1997\)](#), [Stiving and Winer \(1997\)](#), [Basu \(2006\)](#), [Levy, Lee, Chen, Kauffman, and Bergen \(2011\)](#), [Snir, Levy, and Chen \(2017\)](#), and [Levy, Snir, Gotler, and Chen \(2020\)](#)).

There are two possible explanations for the use of 9-ending digits in the context of psychological pricing. One is that consumers tend to focus on the first two or three digits of the retail price while disregarding the remaining digits (e.g., underestimating the difference between 1459 and 1450 relative to 1460 and 1459). The other explanation is that consumers perceive prices ending in 9 as lower than they actually are.

A retailer's preference for using 9 as the last digit indicates that they are less inclined to change their price when their current price ends with 9. This preference not only impacts the frequency of price changes but also the magnitude of those price changes. As shown in [Figure 5a](#) and [Figure 5b](#), when the last digit of the previous price ends in 8 or 9, price

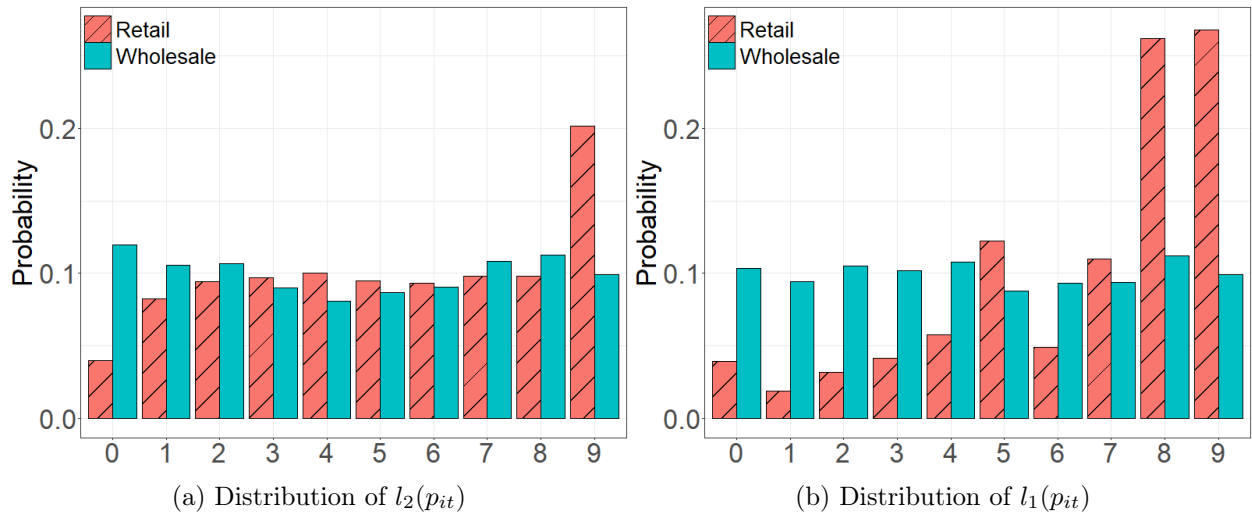


Figure 2: The distribution of price points in last and second-to-last digit

Note: $l_1(\cdot)$ and $l_2(\cdot)$ are functions that output the last and second-to-last digits of price, respectively. In the legend, ‘Retail’ represents the distribution of price points for retail gasoline prices, and ‘Wholesale’ represents the distribution of price points for wholesale prices.

changes are more likely to be in increments of 10. However, the case of $ld2$ exhibits slightly different patterns. As demonstrated in [Figure 5d](#) and [Figure 5c](#), when the second-to-last digit of the previous price ends in 9, price changes are still likely to be in increments of 10. However, retailers are less inclined to change their price by an amount of 10 in this case. In the case of $ld2 = 1$, increasing the price by a magnitude of 10 results in the second-to-last digit becoming zero. This may not convey to consumers a lower price.

The preference for 9-ending digits for both the last and second-to-last digit makes retailers change their price infrequently, but the reasons behind this preference may vary. [Snir and Levy \(2021\)](#) used scanner price data from a large US grocery chain to investigate whether consumers’ belief (that 9-ending prices are lower) is accurate. They found that 9-ending prices are actually higher than non-9-ending prices by as much as 18%. This finding aligns with the results obtained from comparing gasoline prices in the cases of $ld2 = 0$ and $ld2 = 1$ where the difference in the mean gasoline price between $ld2 = 1$ and $ld2 = 0$ is 21.84. However, the results from comparing gasoline price in the case of $ld1 = 0$ and $ld1 = 1$ are

different; the difference in the mean gasoline price between $ld1 = 1$ and $ld1 = 0$ is -14.25.⁹

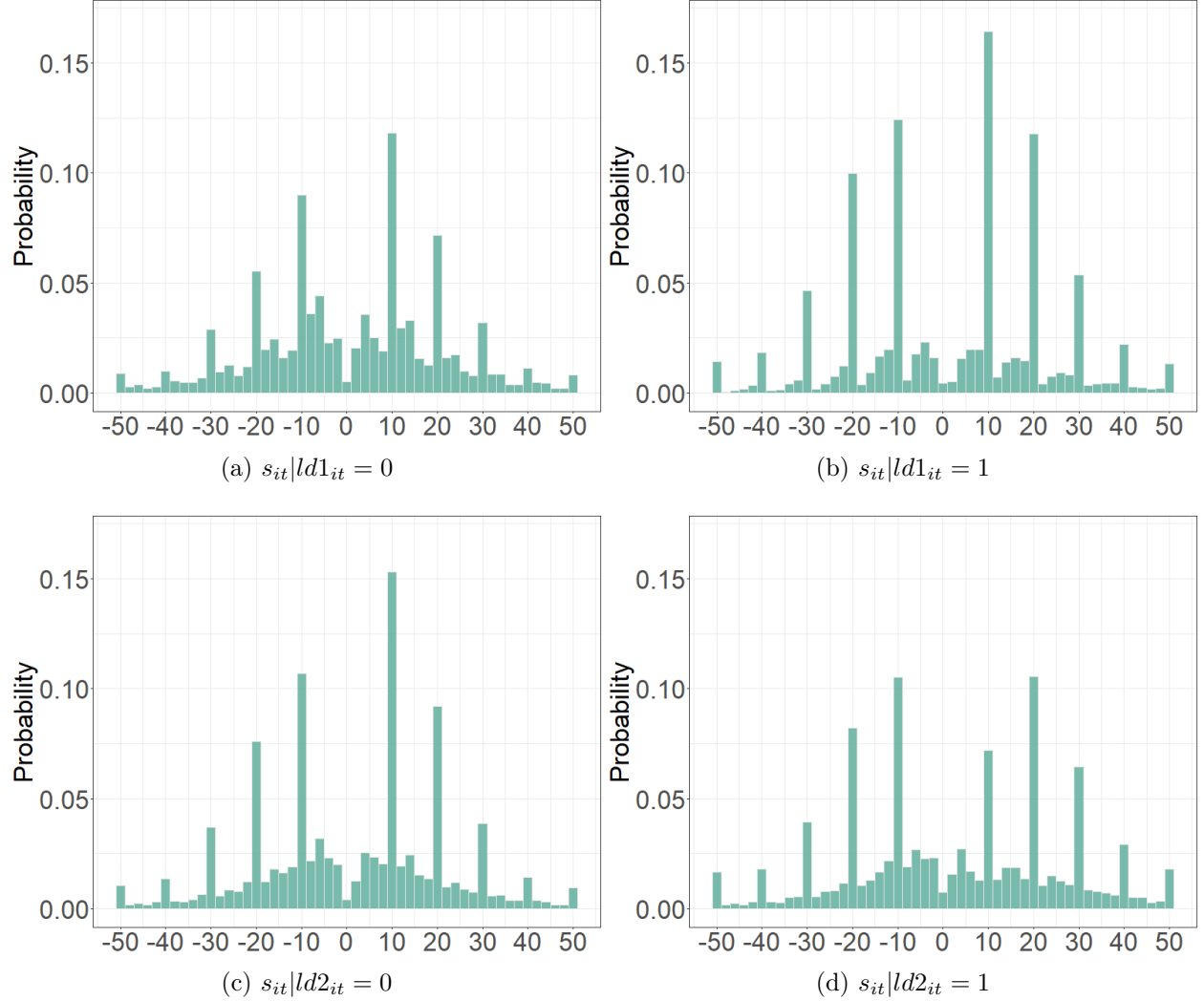


Figure 3: The distribution of s_{it} (KRW/liter)

Note: $s_{it} = \Delta p_{it} | (f_{it} = 1)$ is the size of the price change. Additionally, $ld1_{it} = 1$ if the last digit of p_{it-1} is 8 or 9, and zero otherwise. Similarly, $ld2_{it} = 1$ if the second to last digit of p_{it-1} is 9, and zero otherwise.

A retailer's preference for using 9 as the last digit also affects their regular price change frequency. Figure 4 illustrates how the probability of a price change varies with the duration of maintaining the previous price. As depicted, the hazard rate (probability of changing

⁹The t-tests for mean differences in both cases are statistically significant at the 1% significance level.

the price) sharply increases at multiples of 7 days in the duration of keeping the previous price. Furthermore, the hazard rate also exhibits variation based on the last and second-to-last digits. **Figure 4** reveals that when the last and second-to-last digits do not end with a 9, retailers are more inclined to change their price with a regular duration, especially at multiples of 7 days, compared to when the last or second-to-last digit is 9.

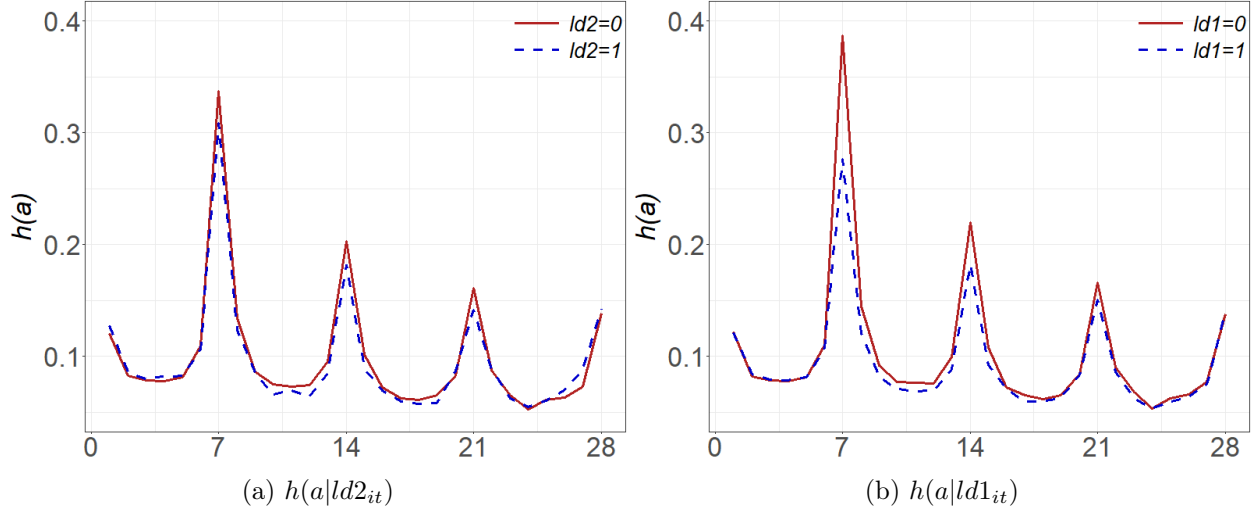


Figure 4: Hazard rates conditional on $ld2$ and $ld1$

Note: The hazard rate of price change (the probability of making a price change given that the price has remained unchanged since the last change) is defined as follows. For all stations, denoted as $i = 1, \dots, N$, I have $h(a) = \text{prob}(f_{it} = 1 | a_{it} = a)$. When tracking a group of stations since the last price change, if the fraction of remaining stations with a price age of a is represented as $S(a)$ (where $S(0) = 1$), then for $a \geq 1$, the hazard rate can be expressed as $h(a) = 1 - \frac{S(a)}{S(a-1)}$, where $S(\cdot)$ denotes the survival rate.

3.3 Market power and frequency of price change

Table 2 reports the average of F_i , A_i and P_i^m for stations with varying values of N^r . Here, F_i stands for the ratio of f_i among all periods for station i indicating how frequently station i changes its price. For instance, if F_i is 0.5, it signifies that station i changes its price every other day. P_{it}^m denotes the average price, adjusted for deviations, across each time period t . This measurement indicates how much station i 's price deviates from the average market

Table 2: Station average duration and price change frequency by the number of rivals

N^r	A_i		F_i		P_i^m		N
	Mean	SD	Mean	SD	Mean	SD	
0	13.887	12.901	0.067	0.027	30.621	143.141	22
1	12.740	11.824	0.083	0.035	17.222	135.822	96
2	12.567	11.674	0.087	0.048	9.215	113.146	182
3	11.820	10.686	0.096	0.049	10.372	136.021	266
4	11.129	10.233	0.097	0.048	-1.502	119.413	305
5	10.999	9.738	0.104	0.063	-3.924	116.476	309
6	11.218	9.960	0.101	0.054	-8.539	117.786	250
7	10.811	9.805	0.100	0.055	-6.862	116.743	170
8	9.783	8.804	0.105	0.050	-26.109	97.106	106
9	9.518	9.170	0.104	0.038	-49.116	79.987	46
$10 \leq$	9.032	9.085	0.107	0.034	-87.754	23.859	19

¹ A_i is the average duration of keeping previous price where $a_{it} = t - k$ and $f_{ik} = 1$ and $f_{ij} = 0$ for $k < j < t$ and $A_i = 1/T \sum_{t=1}^T a_{it}$. F_i is the ratio of f_{it} where $f_{it} = \mathbb{1}\{\Delta p_{it} = 1\}$ and $F_i = 1/T \sum_{t=1}^T f_{it}$. $P_{it}^m = p_{it} - p_t^m$ represents how station i 's price deviates from the market average price p_t^m at time t , where $p_t^m = 1/N \sum_{i=1}^N p_{it}$. Ultimately, I obtain $P_i^m = 1/T \sum_{t=1}^T P_{it}^m$ by averaging over time.

² N represents the number of stations included in each category based on N^r .

price. If P_{it}^m is greater than zero, it means that station i 's price is relatively higher than the market average price at time t . P_i^m represents the average of P_{it}^m over time, providing an overview of whether station i generally maintains higher or lower prices compared to the market average over a given period. F_i , A_i , and P_i^m are station-level statistics and are aggregated by averaging across different values of N^r , which represents the number of rival stations within a 1km radius.

As the value of N^r increases, there is a notable decrease in the average of A_i (accompanied by an increase in the average of F_i), signifying that stations facing a higher number of competitors within a 1km radius tend to adjust their prices more frequently. Moreover, upon examining the average P_i^m , a consistent decreasing trend is evident as N^r increases. This trend suggests that stations with more competitors are inclined to set their prices lower than the market's average price. This observation aligns with the previously mentioned notion that the number of stations within a specific radius serves as a commonly used proxy for assessing local market competitiveness. Within this context, stations with significant

market power are likely to change their prices less frequently. This relationship between market power and the frequency of price changes is further reaffirmed.

Another characteristic of pricing behavior related to market power is that stations with more market power tend to change their prices at regular intervals and on specific days of the week. In Table 3 the variable $f_i(a_{it} = k) = (1/T) \sum_{t=1}^T (f_{it}|a_{it} = k)$ represents the average frequency of price changes occurring with $a_{it} = k$ throughout the entire period for station i . A higher $f_i(k = 1)$ indicates that stations prefer to change their prices mostly within one day of keeping their previous price, while a higher $f_i(k = 7)$ suggests that stations prefer to change their prices every 7 days. Similarly, $f_i(a_{it} = 2, \dots, 6) = (1/T) \sum_{t=1}^T (f_{it}|a_{it} = 2, \dots, 6)$ represents the average frequency of price changes with a_{it} taking on values from 2 to 6.

Summarizing $f_i(a_{it} = 1)$ by quartiles reveals that stations with lower $f_i(a_{it} = 1)$ have, on average, a lower value for N^r compared to stations with higher $f_i(a_{it} = 1)$. A similar pattern is observed in the case of $f_i(k = 2, \dots, 6)$. This suggests that stations with more rivals are more likely to change their prices within a duration of less than 7 days. However, this pattern changes in the case of $f_i(a_{it} = 7)$. Specifically, stations with lower $f_i(a_{it} = 7)$ have, on average, a higher value for N^r compared to stations with higher $f_i(a_{it} = 7)$. The same pattern is observed for $f_i(a_{it} = 14)$, $f_i(a_{it} = 21)$, and $f_i(a_{it} = 28)$, indicating that stations with more market power are likely to change their prices at regular interval.

The average *SalesVol* and P_{it}^m support this finding. On average, stations with lower values of $f_i(a_{it} = 1)$ and $f_i(a_{it} = 2, \dots, 6)$ tend to have lower sales volume but higher prices (adjusted for deviation). Conversely, stations with lower values of $f_i(a_{it} = 7)$, $f_i(a_{it} = 14)$, $f_i(a_{it} = 21)$, and $f_i(a_{it} = 28)$ have higher sales volume and lower prices (adjusted for deviation).

When firms have market power, they typically increase their prices by reducing their quantity, resulting in a higher equilibrium price and a lower equilibrium quantity. The statistics in Table 3 confirm this common knowledge, and variables such as N^r , *SalesVol*, and P_{it}^m exhibit consistent patterns in representing the competitiveness of the local market. An additional finding suggests that stations with market power tend to change their prices at

Table 3: Summary statistics by $f_i(k)$

	Quartile	N^r	$Sales Vol. (bbl.)$	P_{it}^m	$Tues$
$f_i(a_{it} = 1)$	$f_i(\cdot) < q_1$	3.82	1339.67	41.61	0.400
	$q_1 \leq f_i(\cdot) < q_2$	4.18	1366.74	-16.04	0.280
	$q_2 \leq f_i(\cdot) < q_3$	4.48	1369.98	-22.18	0.280
	$f_i(\cdot) \geq q_3$	4.43	1445.00	-12.34	0.275
$f_i(a_{it} = 2, \dots, 6)$	$f_i(\cdot) < q_1$	3.96	1326.12	80.87	0.462
	$q_1 \leq f_i(\cdot) < q_2$	4.13	1346.50	20.71	0.325
	$q_2 \leq f_i(\cdot) < q_3$	4.27	1406.00	-28.31	0.276
	$f_i(\cdot) \geq q_3$	4.58	1444.11	-76.16	0.206
$f_i(a_{it} = 7)$	$f_i(\cdot) < q_1$	4.51	1396.98	-71.72	0.171
	$q_1 \leq f_i(\cdot) < q_2$	4.39	1388.23	-49.80	0.222
	$q_2 \leq f_i(\cdot) < q_3$	4.15	1421.96	17.11	0.317
	$f_i(\cdot) \geq q_3$	3.93	1319.60	91.61	0.499
$f_i(a_{it} = 14)$	$f_i(\cdot) < q_1$	4.46	1421.01	-67.01	0.203
	$q_1 \leq f_i(\cdot) < q_2$	4.39	1363.93	-35.78	0.278
	$q_2 \leq f_i(\cdot) < q_3$	3.92	1393.43	18.09	0.329
	$f_i(\cdot) \geq q_3$	4.22	1354.51	75.75	0.433
$f_i(a_{it} = 21)$	$f_i(\cdot) < q_1$	4.33	1488.16	-37.97	0.254
	$q_1 \leq f_i(\cdot) < q_2$	4.44	1401.79	-33.00	0.289
	$q_2 \leq f_i(\cdot) < q_3$	4.18	1337.18	14.65	0.331
	$f_i(\cdot) \geq q_3$	4.00	1316.18	42.12	0.338
$f_i(a_{it} = 28)$	$f_i(\cdot) < q_1$	4.54	1441.28	-38.87	0.243
	$q_1 \leq f_i(\cdot) < q_2$	4.41	1416.26	-20.37	0.295
	$q_2 \leq f_i(\cdot) < q_3$	3.99	1358.49	8.28	0.327
	$f_i(\cdot) \geq q_3$	4.10	1324.63	30.88	0.335

¹ If $f_i(\cdot) < q_1$, it indicates that $f_i(\cdot)$ falls below the first quartile. When $q_1 \leq f_i(\cdot) < q_2$, it implies that $f_i(\cdot)$ is greater than or equal to the first quartile but still below the median. Similarly, when $q_2 \leq f_i(\cdot) < q_3$, it means that $f_i(\cdot)$ is greater than or equal to the median but below the third quartile. Finally, when $f_i(\cdot) \geq q_3$, it signifies that $f_i(\cdot)$ is greater than or equal to the third quartile.

² N^r represents the number of stations within a 1km radius, $Sales Vol.$ indicates the monthly sales volume per station, and P_{it}^m represents how station i 's price deviates from the market average price. All three variables are computed by averaging the corresponding values (price, number of rivals, and sales volume) across stations over time. For example, in the first row, for $f_i(k = 1) < q_1$, I begin by calculating $f_i(k = 1)$ for each station and categorizing the stations based on the quartile of $f_i(k = 1)$. Then, using this categorization, I summarize the values by calculating their averages.

³ $Tues$ represents the ratio of Tuesdays among the days of the week, taking into account cases where all price changes are not zero. In other words, it indicates how often stations are likely to change their prices on Tuesdays.

regular intervals, often every 7 days. I will further explore the relationship between market power and this pricing behavior in the main analysis.

4 Econometric Model

I employ a logit model to investigate whether stations adhere to a SD or TD rule when determining price changes. Here's the rationale for using the logit model: On day t , station i makes a decision, represented by the indicator variable f_{it} . If $f_{it} = 1$, it means station i changes the price (e.g., $\Delta P_{it} \neq 0$), while $f_{it} = 0$ indicates that the station chooses to keep the previous price. The goal of the estimation is to examine the impact of specific predictors that represent pricing rules on the likelihood of changing the price. I assume a binomial distribution for the outcome variable and model the probability of a price change based on a given set of predictors.

These predictors can be categorized into two groups: SD and TD variables. When stations follow an SD pricing rule, the likelihood of changing prices increases when they face larger cost shocks. All retailers are faced with daily cost changes, and they are more likely to change their price with larger cost shocks, $|\Delta C_t|$. I introduce the variable ΔC_t in absolute value form into the model.

On the other hand, if stations adhere to a TD pricing rule, the probability of changing prices increases as the duration of maintaining the previous price approaches specific time thresholds. As observed in [Section 3](#), stations tend to change their prices at intervals of 7 days. Given that 7 days can be considered a time threshold for the TD rule, the probability of changing the price will differ between $a_{it} = 1, \dots, 6$ and $a_{it} = 7$ days.

To simplify the model and reduce the number of parameters, I create indicator variables for each $a_{it} = k$, where $I(a_{it} = k)$ implies that station i changed the price on day t after maintaining the price for k days. However, this approach of creating variables to indicate TD rules requires a large number of parameters, so I exclude variables where a_{it} exceeds 28

and focus on pricing behavior during 4 weeks.

Additionally, I group certain durations k into a single indicator variable. For example, I group durations from $a_{it} = 1$ to $a_{it} = 6$ into a single indicator variable, denoted as $I(a_{it} = 1, \dots, 6)$, which is equal to one if the duration station i kept the price falls within the range of 1 to 6. The results with the original indicator variables and the reduced indicator variables are similar. For simplicity, I opt to use the reduced indicator variables in the model.

The data used for estimating the model omits observations where $a_{it} > 35$ to create the reference variable for $I(a_{it} = k)$ and make the interpretation of the coefficient $I(a_{it} = k)$ easier. Specifically, I set the reference variable for $I(a_{it} = k)$ as $I(a_{it} = 29, \dots, 35)$, which equals 1 if stations change their price 29 through 35 days after keeping the previous price, and 0 otherwise. Therefore, the interpretation of the marginal effect of $I(a_{it} = k)$ is how the probability of a price change occurring at k differs from the probability of a price change occurring in the 5th week.

The predictors also include variables serving as proxies for local competition. Previous studies suggest that market power can influence price rigidity, as can be observed in our data, as shown in [Section 3](#). To examine the impact of competition on the probability of price changes, I utilize *Self*, *SalesVol*, and N^r as proxies for local market power.

It's worth noting that stations tend to keep their prices with a 9-ending digit. In other words, the probability of a price change is lower when the last digit of the price is 9. This behavior affects both SD and TD rules. For instance, if the current price ends with a 9, stations will change their price only in response to larger cost shocks. Conversely, if the current price does not end with a 9, stations may change their price even before 7 days pass if the cost shocks are favorable, leading them to set their price with a 9-ending. To account for this 9-ending effect on pricing, I consider an indicator variable that is one if the previous price ends with a 9. Specifically, *ld1* is the indicator variable representing 1 if the price ends with an 8 or 9, and *ld2* represents 1 if the second-to-last digit ends with a 9.

The probability of price change conditioning on these predictors can be represented as

$\pi_{it} = \text{prob}(f_{it} = 1 | \mathbf{x}_{it}) = \frac{\exp(\mathbf{x}'_{it}\boldsymbol{\beta})}{1 + \exp(\mathbf{x}'_{it}\boldsymbol{\beta})}$. I seek to estimate the vector of parameter $\boldsymbol{\beta}$ and $\mathbf{x}'_{it}\boldsymbol{\beta}$ can be denoted as below.¹⁰

$$\mathbf{x}'_{it}\boldsymbol{\beta} = b_1|\Delta C_t| + b_2\text{Self}_{it} + b_3N_{it}^r + b_4\text{SalesVol}_{it} + b_5ld1_{it} + b_6ld2_{it} + \sum_{k=1}^{28} b_{6+k}I(a_{it} = k) \quad (1)$$

I include station fixed effects to account for unobserved variations specific to each station and year-week fixed effects to control for time-varying factors that could influence the likelihood of price change. For instance, local traffic flow and citywide demand for gasoline can vary over time, thus affecting the pricing behavior of all stations. In particular, the year-week fixed effect controls for unobserved factors that can influence the price change within a week when comparing the probability of price change at $a_{it} = 1, \dots, 6$ with that at $a_{it} = 7$. Consequently, I adopt a two-way fixed effects model in the estimation model.

However, it's important to note that there might be an issue with the incidental parameter problem when individual fixed effects are included in nonlinear models like logit and probit. This issue becomes particularly significant when N (the number of entities) and T (the number of time periods) are large. In such cases, the estimators for the variables may become biased. Furthermore, even if we can estimate the model without any fixed effect-induced bias, we encounter another challenge when it comes to fixed effects: the inability to estimate the average marginal effect.

Let's consider the marginal effect for a discrete variable X_1 and denote it as $m(\mathbf{x}_{it}, \boldsymbol{\beta}, c_i) = F[(x_{1it} + 1)\beta_1 + x_{2it}\beta_2 + c_i] - F[x_{1it}\beta_1 + x_{2it}\beta_2 + c_i]$, where $F(\cdot)$ is the link function, and c_i represents the unobserved characteristics for individual i . We cannot estimate the marginal effect on probability y unless we plug in a value for c , the distribution of which is unknown (see Wooldridge (2010) p. 492.) Fernández-Val and Weidner (2016) suggest a bias-correction method for the logit model with two-way fixed effects. The marginal effects are calculated based on bias-corrected estimates. I use their method to obtain the bias-corrected estimates

¹⁰This equation represents an extended version where the TD variables are not reduced. In the actual estimation, I employ the reduced version of the equation.

and calculate the average marginal effects.

5 Estimation Results

I begin by examining the stations’ decisions regarding price changes and how they make these decisions by considering SD and TD variables. I estimate the model (1) using four different approaches, each involving the inclusion of station-level fixed effects and year-week fixed effects. There are four sets of estimation results: one without any fixed effect, one with only station-level fixed effects, one with only year-week fixed effects, and one with both station-level and year-week fixed effects. My primary focus is on the two-way fixed effects model, which offers the main interpretation of the results. However, I also use the other specifications to assess the robustness of the findings.

The point estimates of the logit model are provided [Table 7](#) in the appendix. Based on these estimation results, I report the marginal effects for each coefficient in [Table 4](#). When examining the marginal effects of variables *ld1* and *ld2*, it is evident that they are statistically significant at the 1% level across all four estimation approaches. In particular, within the two-way fixed effects model, the marginal effects for *ld1* and *ld2* are estimated to be -0.01 and -0.021, respectively. This implies that the probability of a price change is 1 percentage point lower when the previous last digit of the price is 8 or 9, and 2.1 percentage points lower when the previous second to last digit of the price is 9. This observation aligns with the findings of [Ater and Gerlitz \(2017\)](#), reaffirming that the presence of 9-ending digits contributes to more rigid price changes.

The variables *Self*, *N^r*, and *SalesVol* are all related to local market power, and their marginal effects are statistically significant at the 1% level, except for *N^r*. Specifically, in the two-way fixed effects model, the estimated marginal effect of *Self* is 0.024, indicating that self-service stations are 2.4 percentage points more likely to change their prices compared to full-service stations. The marginal effect of *SalesVol* is 0.011, indicating that stations

with an increase of one standard deviation in sales volume are 1.1 percentage points more likely to change their prices. While the marginal effect for N^r is relatively modest, its direction corresponds with common expectations. In summary, these findings underscore that competition prompts stations to alter their prices more frequently.

The marginal effect of $|\Delta C|$ is 0.016, statistically significant at the 1% level. This means that the probability of a price change increases by 1.6 percentage points as the absolute size of the cost change increases by one standard deviation in $|\Delta C|$. In other words, stations' decisions to change their prices are influenced by cost shocks, and if stations face larger cost shocks, the probability of a price change becomes higher.

Regarding the marginal effect of indicator variables $I(a_{it} = k)$, the reference variable is $I(a_{it} = 29, \dots, 35)$. The interpretation of the marginal effect for $I(a_{it} = k)$ involves comparing the probability of price change at $a_{it} = 29, \dots, 35$ to that at $a_{it} = k$. However, I analyze the results by comparing the size of the marginal effect for the first 6 days to that for the 7th day within a week. For example, in the case of the first week, the marginal effect of $I(a_{it} = 1, \dots, 6)$ and $I(a_{it} = 7)$ is -0.015 and 0.215, respectively. This implies that the probability of a price change within a duration of less than 7 days is lower than the probability of a price change after maintaining the previous price for a duration of 7 days. A similar pattern can be observed in the 2nd to 4th weeks. These findings suggest that stations tend to change their prices at regular interval.

When examining the marginal effects of $|\Delta C|$ and $I(a_{it} = k)$, I have observed distinct pricing patterns that can be summarized as follows: First, the probability of a price change increases with the magnitude of the cost change. This suggests that stations take into account cost conditions and adjust their prices accordingly, indicating adherence to a SD pricing rule. Second, when comparing the indicator variables for $a_{it} = k$, I observed that the probability of a price change is higher when a_{it} is a multiple of 7. This implies that stations consider whether to change their prices at regular intervals, specifically every 7 days, which signifies adherence to a TD pricing rule.

Table 4: The estimated marginal effects of Logit model (1): Full sample

	Dependent variable: f_{it}			
	(1)	(2)	(3)	(4)
$ \Delta C $	0.016*** (0.000)	0.015*** (0.000)	0.016*** (0.000)	0.015*** (0.000)
<i>Self</i>	0.013*** (0.000)	0.018*** (0.000)	0.010*** (0.001)	0.024*** (0.001)
N^r	0.002*** (0.000)	0.001*** (0.000)	0.007*** (0.000)	0.001 (0.000)
<i>SalesVol</i>	0.006*** (0.000)	0.008*** (0.000)	0.004*** (0.000)	0.011*** (0.001)
<i>ld1</i>	-0.011*** (0.000)	-0.011*** (0.000)	-0.011*** (0.000)	-0.010*** (0.000)
<i>ld2</i>	-0.021*** (0.001)	-0.024*** (0.001)	-0.018*** (0.001)	-0.021*** (0.001)
1st week				
$I(a_{it} = 1, \dots, 6)$	0.046*** (0.001)	0.010*** (0.001)	0.027*** (0.001)	-0.015*** (0.001)
$I(a_{it} = 7)$	0.324*** (0.004)	0.262*** (0.004)	0.286*** (0.004)	0.215*** (0.003)
2nd week				
$I(a_{it} = 8, \dots, 13)$	0.046*** (0.002)	0.031*** (0.002)	0.033*** (0.002)	0.015*** (0.002)
$I(a_{it} = 14)$	0.178*** (0.004)	0.155*** (0.003)	0.160*** (0.004)	0.131*** (0.003)
3rd week				
$I(a_{it} = 15, \dots, 20)$	0.020*** (0.002)	0.015*** (0.002)	0.014*** (0.002)	0.006*** (0.002)
$I(a_{it} = 21)$	0.120*** (0.004)	0.109*** (0.004)	0.111*** (0.004)	0.097*** (0.003)
4th week				
$I(a_{it} = 22, \dots, 27)$	0.004*** (0.002)	0.002 (0.002)	0.001 (0.002)	-0.001 (0.002)
$I(a_{it} = 28)$	0.081*** (0.004)	0.0765*** (0.004)	0.078*** (0.004)	0.072*** (0.004)
Year, Week FE	No	Yes	No	Yes
Station FE	No	No	Yes	Yes

¹ The marginal effects are the averages of the sample marginal effects, which involve calculating a marginal effect for each observation and then averaging them.

² The reference for $I(a_{it} = k)$ is $I(a_{it} = 29, \dots, 35)$, which is equal to one if the duration of maintaining the previous price falls within the range of 29 to 35 days; otherwise, it is zero.

³ Numbers in Parentheses are standard errors and statistical significance levels are represented as $*p < 0.1$; $**p < 0.05$; and $***p < 0.01$.

In summary, my findings suggest that stations do not exclusively adhere to a single pricing rule. Instead, they incorporate both SD and TD pricing rules into their pricing decisions. For example, the unique characteristic of gasoline as a non-perishable product, stored in station inventories, leads to the adoption of TD pricing rules. However, significant changes in the state, mostly cost changes, prompt stations to switch to SD pricing rules. The remaining question is whether these pricing rules are related to market power. I explore how stations change their pricing rules as market power changes in the two remaining subsections.

5.1 State-dependent rule and market power

The SD pricing rule suggests that stations decide whether to change prices based on cost changes. If certain stations are more inclined to change their prices even in response to relatively small cost changes, indicating greater price sensitivity, it seems that these stations rely more on the SD pricing rule compared to stations that are less sensitive to price changes.

To explore the relationship between SD pricing and market power, I segment the data into subsamples based on several variables: the type of service, the number of stations within a 1km radius, and monthly sales volume. More specifically, I estimate the model within subsamples for self-service and full-service and then compare the results between these two categories. If market power affects the SD pricing rule, we would expect to see differences in the marginal effect of $|\Delta C|$ based on the results for different types of service. Additionally, I divide the data into two subsets using the median values of the number of stations within 1km and monthly sales volume, respectively.¹¹ For each case, I conduct the estimation and compare the results in a similar manner to the type of service analysis.

The marginal effects of cost changes for each subsample can be found in [Table 5](#). First, in the case of the results by subsamples depending on sales volume, the marginal effect of $|\Delta C|$ is 0.0139 for subsamples of stations with 'low' sales volume, and 0.0165 for 'high' sales volume. The confidence intervals for the coefficient of $|\Delta C|$ do not overlap in this case,

¹¹The median number of stations within a 1km radius is 4, while the median for monthly sales volume is 2.84

Table 5: The estimated marginal effects of Logit model (1): Sub-samples

	Sales volume		Type of service		Number of station	
	Low	High	Full	Self	$N \leq 4$	$N > 4$
Marginal	0.0139*** (0.000)	0.0165*** (0.000)	0.0147*** (0.000)	0.0153*** (0.000)	0.0156*** (0.000)	0.0145*** (0.000)
Coef.	0.173*** (0.004)	0.203*** (0.005)	0.191*** (0.004)	0.176*** (0.006)	0.196*** (0.005)	0.176*** (0.005)
95% CI	[0.165,0.182]	[0.193,0.212]	[0.183,0.198]	[0.165,0.187]	[0.187,0.205]	[0.166,0.185]

¹ The marginal effects are calculated based on the estimates found in [Table 8](#), and the estimate of the model and corresponding standard errors and confidence intervals are provided in the same table.

indicating that in response to the same amount of cost shocks, the probability of price change for stations with 'high' sales volume is higher than that for stations with 'low' sales volume.

However, comparing the marginal effects for different subsamples is somewhat unclear in the case of the type of service. The coefficients of $|\Delta C|$ do overlap in this case, and therefore, the hypothesis that the marginal effect of cost change is different between full-service and self-service stations cannot be rejected. Even in the subsamples depending on the number of rival stations, the marginal effect of $|\Delta C|$ is greater for stations with a number of rival stations within a 1km radius less than or equal to 4.

The results of two subsamples by sales volume suggest that stations in more competitive areas tend to respond more sensitively to cost changes, indicating that market power makes stations less inclined to follow the SD pricing rule. However, the results of two subsamples by the number of rivals tell a different story; market power makes stations more inclined to follow the SD pricing rule. In summary, comparing the marginal effects of the two subsamples in each case does not show a consistent pattern, implying that that market power might not actually affects stations' inclination to follow the SD pricing rule.

5.2 Time-dependent rule and market power

The definition of a TD pricing rule is that the probability of a price change for stations depends on the duration of maintaining the previous price, implying that stations decide

whether to change their prices at regular intervals. I conduct additional analysis to investigate whether the TD pricing rule is related to market power. The outcome of interest in this analysis is the probability of stations changing their prices at regular intervals. Therefore, among all observations with price changes, I only use observations where price changes occurred in the 1st week and examine how the probability of retailers choosing $a_{it} = 7$ depends on the predictors that serve as proxies for the market.¹² I define $\tau_{it} \equiv I(a_{it} = 7)$ and use it as the dependent variable. In detail, the probability of price change at $a_{it} = 7$, given predictors \mathbf{x}_{it} , can be expressed as $\pi_{it} = \text{prob}(\tau_{it} = 1 | \mathbf{x}_{it}) = \frac{\exp(\mathbf{x}'_{it}\boldsymbol{\beta})}{1 + \exp(\mathbf{x}'_{it}\boldsymbol{\beta})}$, where

$$\begin{aligned} \mathbf{x}'_{it}\boldsymbol{\beta} = & b_1 I(DC_{it} = 0) + b_2 N^r_{it} + b_3 SalesVol_{it} + b_4 ld1_{it} + b_5 ld2_{it} + b_6 Self_{it} \\ & + \sum_{j=7}^9 b_j Brand_{jit} + \sum_{k=10}^{15} b_k Day_{kit} \end{aligned} \quad (2)$$

Figure 4 suggests that the preference of stations for prices ending in 9 in their last and second-to-last digits might influence the TD pricing rule. To account for this, I have included $ld1$ and $ld2$ as control variables. My primary focus is on variables like N^r , $SalesVol$, and $Self$. If greater market power leads stations to be more inclined to change their prices at regular intervals, we would expect the coefficients of these variables to be negative.

The brand of a station may also influence the TD pricing rule, particularly in terms of the market share of SK Energy (*SKE*), which holds the predominant share, followed by GS Caltex (*GSC*) in the second position. The market shares of the other two brands, Hyundai Oil Bank (*HDO*) and S-Oil (*S-OIL*), are relatively smaller in comparison to the top two companies.¹³ Additionally, dummy variables for each day of the week are included in the model, and the estimated coefficients for these variables can help determine whether stations have a preferred day for price changes at regular intervals.

The estimated coefficients are presented in the appendix in Table 9, based on which I

¹²Some observations with the brand labels 'Unbranded' or 'Thrifty' were omitted since they make up a negligible portion of the entire dataset.

¹³The average market shares are 41.2% for *SKE*, 28.1% for *GSC*, 14.2% for *HDO*, and 12.9% for *S-OIL* over the period of the data.

Table 6: The estimated marginal effects of Logit model (2): Reduced sample

	Dependent variable: τ_{it}			
	(1)	(2)	(3)	(4)
N^r	-0.006*** (0.001)	-0.010*** (0.001)	0.021*** (0.002)	-0.016*** (0.002)
<i>SalesVol</i>	-0.030*** (0.001)	-0.023*** (0.001)	-0.032*** (0.003)	-0.025*** (0.003)
<i>ld1</i>	-0.052*** (0.003)	-0.036*** (0.002)	-0.034*** (0.002)	-0.022*** (0.002)
<i>ld2</i>	-0.012*** (0.004)	-0.011** (0.004)	-0.011** (0.003)	-0.008* (0.003)
<i>Self</i>	-0.082*** (0.003)	-0.049*** (0.003)	-0.166*** (0.008)	-0.082*** (0.008)
Brand dummies	Yes	Yes	Yes	Yes
Day of week dummies	Yes	Yes	Yes	Yes
Year, week FE	No	Yes	No	Yes
Station FE	No	No	Yes	Yes

¹ The marginal effects are the averages of the sample marginal effects, which involve calculating a marginal effect for each observation and then averaging them.

² Numbers in Parentheses are standard errors and statistical significance levels are represented as * $p < 0.1$; ** $p < 0.05$; and *** $p < 0.01$.

compute the marginal effects summarized in Table 6. I now focus on the estimated marginal effect as shown in equation (4) of Table 6. Both the marginal effects of *ld1* and *ld2* are negative, which aligns with the findings in Figure 4. The signs of the marginal effects for *Self*, *SalesVol*, and N^r are as expected and statistically significant at the 1% level.

To provide more details, self-service stations are approximately 8.2 percentage points less likely to change their prices regularly. Concerning the marginal effects of sales volume, an increase of one standard deviation in sales volume corresponds to about a 2.5 percentage points reduction in the probability of changing prices regularly. The marginal effect of N^r is -0.016, indicating that having one more rival leads to a roughly 1.6 percentage points decrease in the probability of changing prices with regular intervals.

Based on the marginal effects of the three variables representing competitiveness in the neighborhood, it can be concluded that stations in more competitive local markets are less likely to change their prices at regular intervals. These findings suggest that market power

plays a role in the TD pricing rule, making firms in concentrated markets more inclined to adopt the TD pricing rule. To explain the empirical findings, I compare them with existing theories where rational inattention is considered optimal behavior.

Following the model presented in [Reis \(2006\)](#), where infrequent adjustments are optimal, let's consider a profit maximization problem under imperfect information, where acquiring the necessary information for price decision-making is costly. There are no physical menu costs, allowing firms to change prices every period at no cost except for the information acquisition cost. In this economy, firms then decide to be rationally inattentive and update their information sets infrequently. The optimal level of inattentiveness is deterministic and can be represented as shown in [\(3\)](#).¹⁴

$$d^* = \sqrt{\frac{4\kappa}{\sigma^2\theta(\theta-1)}} \quad (3)$$

In [Reis \(2006\)](#), it is mentioned that the energy retail sector exhibits relatively frequent price adjustments due to the frequent input cost shocks (high σ^2) and highly price-sensitive consumers (high θ) and thus the result as shown in [\(3\)](#) aligns well with the pricing behavior of retailers in the retail gasoline station industry. For certain parameter values, retailers change their prices every d^* days. In this case, all retailers have the same degree of rational inattentiveness, and there is no strategic interaction between retailers that affects their inattentiveness.

Now, consider a case in which strategic interaction affects the retailers' inattentiveness. This concept is similar to that in [Maćkowiak and Wiederholt \(2009\)](#), where their model allows for heterogeneity in inattentiveness. They consider two types of shocks: one related to aggregate conditions and the other more like firm-specific shocks. Their model predicts that firms are more responsive to idiosyncratic shocks when idiosyncratic conditions are

¹⁴This is the baseline case described in [Reis \(2006\)](#), where the demand follows an iso-elastic function with a price elasticity parameter $\theta > 1$, the marginal cost follows a geometric Brownian motion with variance σ^2 , and planning costs account for a fixed share κ of profits.

more volatile and important than aggregate conditions. In this case, the choices regarding attention are characterized by strategic complementarity, which implies that a firm becomes more attentive when other firms are also becoming more attentive.

For example, let's consider a scenario with a monopoly retail station in an isolated local market. In this case, the station updates its information set every d_m^* days without considering other stations. Now, let's assume the same conditions but with two retail stations. In this scenario, each station considers the pricing behavior of the other station and the optimal inattentiveness will be less than d_m^* . As the number of stations increases under the same conditions, the firm-specific shocks become more volatile and significant making stations pay more attention to the information and change price more frequently.

Most stations tend to change their prices at regular intervals following the TD pricing rule, typically every 7 days according to my empirical findings. However, some stations facing a more competitive environment have an incentive to be less inattentive, leading them to change their prices even before 7 days have elapsed. In summary, market power affects inattentiveness and, consequently, influences retailers' inclination toward the TD pricing rule.

The implications of the empirical results can be summarized as follows. First, in contrast to most studies in industrial organization that do not support the idea that costly adjustments lead to price rigidity, I find a pattern of TD pricing in the retail gasoline market. This suggests that the costs associated with acquiring information for price adjustments do indeed affect price stickiness. Second, stations' inclination toward the TD pricing rule can be affected by market conditions. The empirical results show that proxy variables for competitiveness in a local market lower the probability of price change at regular intervals, which is typically every 7 days, but not within 1 or 6 days. Moreover, these findings align with existing theories of rational inattention, providing further evidence for this study's conclusions.

6 Concluding Remarks

This study examines retailers' pricing behavior, with a particular focus on infrequent price adjustments. I begin by confirming several stylized patterns of sticky prices using figures and statistics. These patterns include price changes at regular intervals, a preference for prices ending with the digit 9, and less frequent adjustments for stations with fewer local rivals.

The contributions of this study, based on the primary analysis, are as follows. First, I investigate sticky pricing through the lens of both SD and TD pricing rules within the retail gasoline market. Retail gasoline market data offers specific advantages for the study of sticky prices, leading to clearer and more robust results. My estimation results reveal that stations do not strictly adhere to a single pricing rule but instead utilize both SD and TD pricing rules. Second, additional analysis indicates that market power does influence the TD pricing rule. Specifically, stations with greater market power tend to change their prices at regular intervals. This empirical result can be explained within the context of a model framework where firms' inattentiveness affects each other.

In summary, this study demonstrates how costly adjustments lead to price stickiness by examining the adherence to both SD and TD pricing rules. In particular, the tendency to follow the TD pricing rule can be influenced by market power. As a result, stations with market power tend to adjust their prices at regular intervals, whereas those in competitive areas deviate from these regular patterns.

However, this study does not explain why stations choose a 7-day interval as the regular pattern. While there may be plausible speculations, but it's worth noting an interesting pattern where stations show a preference for specific days of the week for their price changes based on their brand. This pattern changes as the market structure changes (see [Figure 5](#) in the appendix). This finding provides some hints about price coordination or price synchronization in terms of the timing of adjustments and I leave this for future research.

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7 Appendix: Additional Tables and Figures

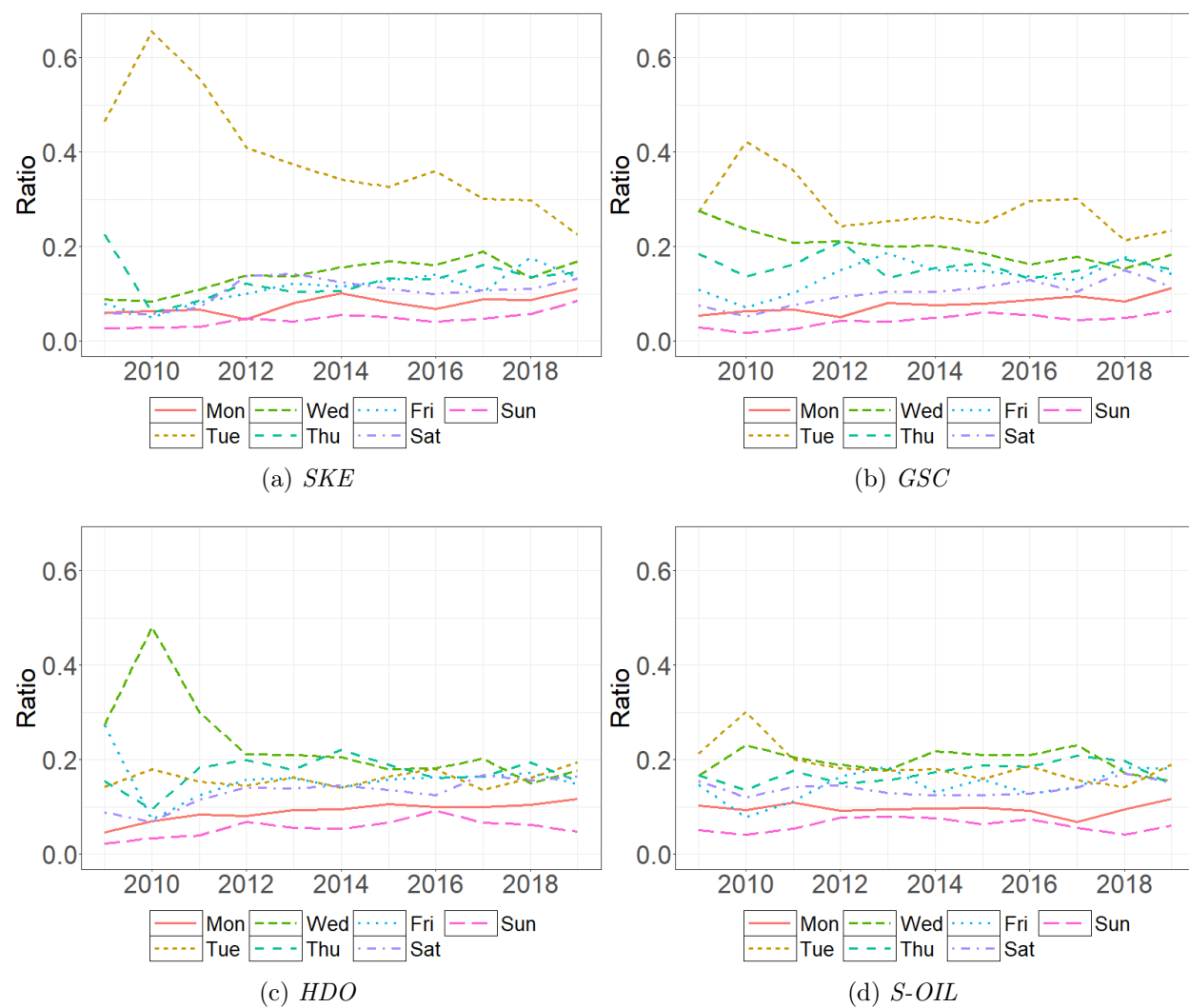


Figure 5: The ratio of day of week for price change

Note: The figures show the ratio of each day of the week among all days of price change. Each day of the week is abbreviated (e.g., 'Mon' represents Monday).

Table 7: Estimates of Logit model (1): Full sample

	Dependent variable: f_{it}			
	(1)	(2)	(3)	(4)
$ \Delta C $	0.107*** (0.003)	0.186*** (0.003)	0.186*** (0.003)	0.187*** (0.003)
<i>Self</i>	-0.029*** (0.005)	0.215*** (0.006)	0.118*** (0.016)	0.282*** (0.017)
N^r	-0.065*** (0.001)	0.011*** (0.001)	0.082*** (0.004)	0.006 (0.004)
<i>Sales Vol.</i>	-0.238*** (0.002)	0.098*** (0.003)	0.044*** (0.005)	0.131*** (0.006)
<i>ld1</i>	-0.346*** (0.005)	-0.136*** (0.005)	-0.133*** (0.005)	-0.130*** (0.006)
<i>ld2</i>	-0.412*** (0.007)	-0.313*** (0.007)	-0.234*** (0.007)	-0.283*** (0.007)
1st week				
$I(a_{it} = 1, \dots, 6)$	-1.183*** (0.007)	0.123*** (0.017)	0.328*** (0.017)	-0.181*** (0.017)
$I(a_{it} = 7)$	0.367*** (0.009)	1.857*** (0.018)	1.936*** (0.017)	1.650*** (0.018)
2nd week				
$I(a_{it} = 8, \dots, 13)$	-1.235*** (0.009)	0.348*** (0.017)	0.369*** (0.017)	0.175*** (0.018)
$I(a_{it} = 14)$	-0.358*** (0.014)	1.260*** (0.021)	1.268*** (0.020)	1.138*** (0.021)
3rd week				
$I(a_{it} = 15, \dots, 20)$	-1.497*** (0.011)	0.169*** (0.019)	0.159*** (0.019)	0.072*** (0.019)
$I(a_{it} = 21)$	-0.712*** (0.020)	0.958*** (0.025)	0.961 (0.025)	0.897*** (0.025)
4th week				
$I(a_{it} = 22, \dots, 27)$	-1.682*** (0.015)	0.029 (0.021)	0.013 (0.021)	-0.014 (0.021)
$I(a_{it} = 28)$	-0.979*** (0.028)	0.723*** (0.032)	0.727*** (0.031)	0.705*** (0.032)
Observation	1,867,724	1,867,724	1,867,724	1,867,724
Pseudo R^2	0.016	0.082	0.067	0.103
AIC	1,175,921	1,096,590	1,114,841	1,072,470

¹ The reference for $I(a_{it} = k)$ is $I(a_{it} = 29, \dots, 35)$, which is equal to one if the duration of maintaining the previous price falls within the range of 29 to 35 days; otherwise, it is zero.

² The estimated results in column (2) - (4) are bias corrected estimates.

³ Pseudo R^2 's are calculated based on McFadden Pseudo R^2 .

⁴ Numbers in Parentheses are standard errors and statistical significance levels are represented as * $p < 0.1$; ** $p < 0.05$; and *** $p < 0.01$.

Table 8: Estimates of Logit model (1): Sub-samples

	Service		N^r		Sales Vol.	
	Full	Self	$N^r \leq 4$	$N^r > 4$	Low	High
$ \Delta C $	0.191*** (0.004)	0.176*** (0.006)	0.196*** (0.005)	0.176*** (0.005)	0.173*** (0.004)	0.203*** (0.005)
<i>Self</i>			0.400*** (0.026)	0.199*** (0.025)	0.313*** (0.025)	0.306*** (0.030)
N^r	0.006 (0.006)	0.002 (0.007)			0.045*** (0.007)	-0.046*** (0.007)
<i>Sales Vol.</i>	0.110*** (0.008)	0.140*** (0.011)	0.119*** (0.008)	0.097*** (0.011)		
<i>ld1</i>	-0.127*** (0.007)	-0.126*** (0.009)	-0.123*** (0.008)	-0.131*** (0.008)	-0.131*** (0.008)	-0.120*** (0.008)
<i>ld2</i>	-0.313*** (0.009)	-0.221*** (0.012)	-0.293*** (0.010)	-0.266*** (0.011)	-0.276*** (0.010)	-0.282*** (0.010)
1st week						
$I(a_{it} = 1, \dots, 6)$	-0.279*** (0.021)	-0.071* (0.030)	-0.206*** (0.023)	-0.224*** (0.027)	-0.323*** (0.025)	-0.130*** (0.024)
$I(a_{it} = 7)$	1.733*** (0.022)	1.418*** (0.032)	1.616*** (0.024)	1.644*** (0.028)	1.670*** (0.026)	1.565*** (0.025)
2nd week						
$I(a_{it} = 8, \dots, 13)$	0.164*** (0.022)	0.176*** (0.031)	0.164*** (0.023)	0.154*** (0.027)	0.141*** (0.025)	0.167*** (0.025)
$I(a_{it} = 14)$	1.204*** (0.025)	0.974*** (0.037)	1.119*** (0.028)	1.138*** (0.032)	1.155*** (0.030)	1.088*** (0.029)
3rd week						
$I(a_{it} = 15, \dots, 20)$	0.056* (0.023)	0.095** (0.033)	0.040 (0.025)	0.097** (0.029)	0.042 (0.027)	0.081** (0.027)
$I(a_{it} = 21)$	0.955*** (0.031)	0.757*** (0.046)	0.884*** (0.034)	0.905*** (0.039)	0.923*** (0.036)	0.859*** (0.036)
4th week						
$I(a_{it} = 22, \dots, 27)$	-0.045 (0.026)	0.041 (0.037)	-0.013 (0.028)	-0.021 (0.033)	-0.037 (0.031)	0.000 (0.030)
$I(a_{it} = 28)$	0.721*** (0.038)	0.667*** (0.057)	0.712*** (0.041)	0.691*** (0.050)	0.791*** (0.045)	0.615*** (0.046)
Observation	1,257,629	610,095	1,061,281	806,443	933,475	934,249
Pseudo R^2	0.114	0.089	0.106	0.104	0.114	0.099
AIC	695,451	373,232	598,916	470,462	529,549	538,082

¹ The reference for $I(a_{it} = k)$ is $I(a_{it} = 29, \dots, 34)$, which is equal to one if the duration of maintaining the previous price falls within the range of 29 to 34 days; otherwise, it is zero.

² All estimated results are TWFE estimates and have been bias corrected.

³ Pseudo R^2 's are calculated based on McFadden Pseudo R^2 .

⁴ Numbers in Parentheses are standard errors and statistical significance levels are represented as * $p < 0.1$; ** $p < 0.05$; and *** $p < 0.01$.

Table 9: Estimates of Logit model (2): Reduced sample

	Dependent variable: τ_{it}			
	(1)	(2)	(3)	(4)
N^r	-0.077*** (0.003)	-0.061*** (0.004)	0.143*** (0.012)	-0.115*** (0.014)
<i>Sales Vol.</i>	-0.299*** (0.006)	-0.141*** (0.008)	-0.213*** (0.018)	-0.181*** (0.021)
<i>ld1</i>	-0.383*** (0.014)	-0.227*** (0.015)	-0.227*** (0.016)	-0.160*** (0.017)
<i>ld2</i>	-0.108*** (0.021)	-0.066** (0.022)	-0.071** (0.022)	-0.059* (0.024)
Service <i>Self</i>	-0.578*** (0.015)	-0.306*** (0.017)	-1.142*** (0.053)	-0.592*** (0.056)
Brand <i>SKE</i>	0.431*** (0.023)	0.804*** (0.028)	1.036*** (0.083)	0.712*** (0.087)
<i>GSC</i>	0.320*** (0.025)	0.725*** (0.030)	0.575*** (0.092)	0.367*** (0.095)
<i>HDO</i>	0.036 (0.030)	0.554*** (0.034)	0.411*** (0.106)	0.394*** (0.109)
Day of week <i>Mon</i>	-0.776*** (0.043)	0.843*** (0.075)	0.635*** (0.078)	0.588*** (0.079)
<i>Tue</i>	1.434*** (0.028)	3.015*** (0.068)	2.681*** (0.068)	2.671*** (0.070)
<i>Wed</i>	0.412*** (0.030)	2.045*** (0.069)	1.813*** (0.070)	1.831*** (0.071)
<i>Thu</i>	0.143*** (0.032)	1.674*** (0.069)	1.674*** (0.070)	1.618*** (0.072)
<i>Fri</i>	-0.385*** (0.035)	1.261*** (0.071)	1.206*** (0.072)	1.225*** (0.073)
<i>Sat</i>	-0.475*** (0.037)	1.205*** (0.072)	0.958*** (0.074)	1.023*** (0.075)
Year, week FE	No	Yes	No	Yes
Station FE	No	No	Yes	Yes
Observation	112,915	112,915	112,915	112,915
Pseudo R^2	0.138	0.212	0.253	0.304
AIC	119,765	109,408	103,665	96,570

¹ The estimated results in all columns are bias corrected estimates.² Pseudo R^2 's are calculated based on McFadden Pseudo R^2 .³ Numbers in Parentheses are standard errors and statistical significance levels are represented as * $p < 0.1$; ** $p < 0.05$; and *** $p < 0.01$.