

Price Dispersion in Turkey

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Introduction

This paper looks at the impact of Turkey’s recent rapid inflation growth and weakening of currency exchange rates on price dispersion among grocery store retailers. Turkey’s current economic situation, rooted in long-standing unorthodox monetary policy, provides a unique case to analyze how micro-level price changes contribute to the non-neutrality of monetary policy. Karadi et al. (2023) shows that competitor price gaps exhibit state-dependent pricing as stores adjust their prices if misaligned with their competitors. We use this state-dependent pricing model to show that pricing adjustments at the individual store level aggregates to broader inflationary pressures. Using daily product level data between 2020 and 2024 of multiple in-person and online grocery retailers, we calculate the size, frequency, and density of price adjustments by individual stores in response to price gaps with competitors who sell the same product. We observe that stores facing a negative price gap increase their prices by an average size that is twice as large as the price decreases made with stores facing a positive price gap. This suggests that stores with higher prices than their

competitors are less responsive to price gaps as inflationary pressures increase costs and limit ability to reduce prices.