

Accepted Manuscript

The price-matching dilemma

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PII: S0167-7187(17)30292-8
DOI: [10.1016/j.ijindorg.2018.02.002](https://doi.org/10.1016/j.ijindorg.2018.02.002)
Reference: INDOR 2425



To appear in: *International Journal of Industrial Organization*

Received date: 8 May 2017
Revised date: 2 February 2018
Accepted date: 12 February 2018

Please cite this article as: Evangelos Constantinou, Dan Bernhardt, The price-matching dilemma, *International Journal of Industrial Organization* (2018), doi: [10.1016/j.ijindorg.2018.02.002](https://doi.org/10.1016/j.ijindorg.2018.02.002)

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Highlights

- When consumer choice of where to shop is sufficiently price elastic, then in the unique equilibrium, a prisoner's dilemma results in which stores have a dominant strategy to price-match.
- For intermediate shopping elasticities, two equilibria exist— a low profit equilibrium in which all firms price match, and a high profit equilibrium in which no firm does.
- Only when travel is sufficiently costly is the high profit, no-price matching equilibrium unique.

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