The price-matching dilemma

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Highlights

- When consumer choice of where to shop is sufficiently price elastic, then in the unique equilibrium, a prisoner'fs 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.