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Round Prices and Price Rigidity: Evidence from Outlawing Odd Prices

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Abstract

This paper exploits a legal change in Israel that banned the use of non-zero-digit price endings (e.g., 6.99) to study the relationship between digit price endings and price rigidity. We compare the propensity of product prices to change before and after the ban, while distinguishing between products whose prices ended with a zero and products whose prices did not end with a zero digit before the ban. We find that before the ban, zero-digit price endings were more likely to change, typically upward, compared with products with non-zero digit price endings. After the legal change these differences disappeared. Overall, these findings support the Price Point Theory (Blinder (1991)).

Keywords: price rigidity, price points, 9-ending prices

JEL Classification: E30, E51

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