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Does Marketing Widen Borders? Cross-Country Price Dispersion in the European Car Market

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Abstract

We study cross-country price differences in the European market for new passenger cars based on detailed pricing and technical data. Car prices in Europe converged until the year 2003, but not thereafter. Even then the price range of the median model across EU 15 countries was close to 20 percent. This cross-country price differentiation is systematically linked to common product features, varies significantly across models and increases systematically with the market segment. Identical cars are positioned individually by country, for example via tailored feature bundles. Both the convergence of prices in anticipation of a future reduction of barriers to arbitrage and the systematic price differentials point to active pricing-to-market strategies that treat countries as marketing regions.

Keywords: international price dispersion, arbitrage, law of one price, market segmentation, European car market, border effect
JEL classification: F15, F31, L11, L62, D22

1. Introduction

Pricing-to-market (PTM), the practice of differentiating the retail or wholesale price of a good across markets, is a well-known practice (e.g. Alessandria and Kaboski, 2011; Atkeson and Burstein, 2008; Berman, Mayer, and Martin, 2012; Burstein and Gopinath, 2014; Gron and Swenson, 1996; Simonovska, 2015; Strasser, 2013). Much less is known about the exact mechanisms through which PTM is implemented.[1] Price differentials between countries

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[1]For example, a recent report of the Canada Senate on the persistent price gap with the U.S. with a special attention to car prices noted that after hearing extensive expert testimony and taking into account