**The Welfare Effects of Price Caps in Search Markets**

Evidence from Uruguayan Retail Data during the Covid-19 Pandemic

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**Motivation**

- Price caps = potential protection policy against high consumer prices. Theoretically, its effects are ambiguous!
- Intuitively: price caps can reduce the maximum price in a market; however, in markets with consumer search costs expected prices can increase (Fershtman and Fishman 1994, Armstrong et al. 2009).
- In the latter case: Price caps deter consumer search efforts → lower pressure on firms → expected prices can increase!
- There is no comprehensive empirical study of the effects of price caps in search markets
- To fill this gap, we study empirically the effects of price cap policies over different products in Uruguay during the Covid-19 pandemic.

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**Voluntary Price Cap Policy in Supermarket Retail Markets**

- Although the government did not impose a quarantine, it recommended low mobility and WFH policies across the country.
- On May 11 2020, several chain retailers agreed to impose voluntary price caps for products in Uruguay during the Covid-19 pandemic.

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**Data**

- Store information contains retailer type (specific chain or independent) and exact geographical location.
- Each store location is matched to zip code characteristics.
- For each chain retailer, list of UPCs subject to price caps and their magnitude.
- We use only information from the capital (Montevideo).

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**Descriptive and Reduced Form Evidence**

Different trends (example: Meat UPCs)

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**Significant impact of price caps**

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**Estimation Results**

Price cap policy increased proportion of consumers that only searches once only temporarily.

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**Counterfactuals: No Price Caps**

Lower CS and higher PS under no price caps regime

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**Conclusions**

- Evidence of lower intensity of consumer search due to price cap policies.
- Counterfactuals indicate that the policy was beneficial for consumers, as without it, on average, they would have suffered from a reduction in utility of 31%. Firms would be better off without price caps → additional benefits not accounted for in the model.
- When we decompose this change, we find that indirect effects ameliorate the effects on consumers, but not enough to offset the direct effects.
- We find no evidence of consumers’ search reduction being strong enough to make price cap reduce consumer surplus.

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Notes:

- Estimation results using non-overlapping markets structural estimation. First four columns correspond to different statistics about consumer search. Obs row is the number of observations. Only for markets that can be identified:
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- We find no evidence of consumers’ search reduction being strong enough to make price cap reduce consumer surplus.