99 Cent: Price Points in E-Commerce

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Abstract

It has been argued that the prevalence of 99 cent prices in shops can be explained with rational consumers who disregard the rightmost digits of the price. This bounded rational behaviour leads to a Bertrand equilibrium with positive markups. We use data from an Austrian price comparison site and find results confirming this theory. We can show that price points (special prices ending in 9 or 0) are prevalent in e-commerce. These price points - in particular prices ending in 9 - are also sticky: price-setters change them with a significantly lower probability; rivals underbid these price points more seldom if they represent the cheapest price on the market. Finally, we explore the impact of these price points on consumers' demand.