Abstract

We study the effects of a regulation passed in Israel that required supermarket chains to make the prices of all items sold in their brick-and-mortar stores publicly available online. Using a differences-in-differences research design and multiple complementary control groups, we show that prices have declined by 4% to 5% after the regulation. Price dispersion has also dropped as chains have begun setting identical prices across their stores. To uncover the underlying mechanisms, we test predictions from Robert and Stahl (1993). Consistent with their model, in the post-transparency period: (1) media outlets used freely available price information to conduct extensive price-comparison surveys; (2) hard-discount chains took advantage of the favorable media coverage they received by explicitly mentioning these surveys in their ads; (3) the use of media-based ads increased when prices declined; (4) consumers visited the price-comparison websites infrequently. Our findings highlight the importance of the media in facilitating informative advertising, and the pro-competitive role of advertising.