Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: **Amy Farmer, University of Arkansas.**

TITLE: **Competitive Markets When Customers Anticipate Stock Outs.**

TIME: 11:30 AM – 01:00 PM.

DAY & DATE: Friday, 2nd November, 2012

PLACE: Seminar Room 2

Abstract:

How shoppers react to an empty shelf is an ongoing concern in naturally occurring markets. The anticipation of stock outs impacts where customers shop, which in turn affectsoptimal prices and inventory choices. In this paper we develop a differentiated product duopoly model of this situation. Theoretically, market outcomes hinge on the cost to the shopper of visiting a second seller after experiencing a stock out. If costs are high, the prices at both outlets and the inventory of the high quality seller are relatively low as the low quality seller attempts to draw in shoppers rather than serving the residual market. Importantly, the model illustrates that in some market conditions, a stock out may be a strategic decision by a seller and not simply a costly mistake while excess inventory may actually be the result of ordering too little inventory. This suggests the importance of modeling seller competition and buyer behavior. A laboratory experiment largely confirms the comparative static effects predicted by the model, but shoppers have difficulty in coordinating their behavior as in other market entry game experiments.

Keywords: On Shelf Availability, Market Entry Game, Shopper Reaction, Experiments
Patent duration, Collusion

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