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The Scandinavian Journal of Economics / Volume 103, Issue 4 / pp. 545-558

The Law of One Price—A Case Study

Jonathan Haskel, Holger Wolf

First published: 17 December 2002

https://doi.org/10.1111/1467-9442.00259

PDF

Abstract

We use retail transaction prices for a multinational retailer to examine the extent and permanence of violations of the law of one price. For identical products, we find typical deviations of 20–50 percent, with some evidence for convergence over time. Such differences might be due to differences in local costs. If so, relative prices of similar products (round versus square mirrors) should be equal across countries. In fact, relative prices vary significantly across very similar goods within a product group. The finding suggests that differences in local distribution costs, local taxes, and probably tariffs do not explain the price pattern, leaving strategic pricing or other factors resulting in varying markups as alternative explanations.

JEL classification: *F*41; *L*11

Citing Literature

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