

The Welfare Effects of Non-Price Competition Among Real Estate Brokers

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Abstract

This paper examines the role of brokers in economizing on transaction costs in the housing market. By lowering the cost of transactions, brokers create welfare gains compared to a market in which buyers and sellers transact on their own. However, if brokers engage in unproductive, non-price competition to acquire a larger share of available listings, then some of the welfare gains are dissipated. Using a partial equilibrium model, this paper shows how an excessive commission rate can lead to this result.

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