

List Prices, Sale Prices and Marketing Time: An Application to U.S. Housing Markets

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Abstract

Many goods are marketed after first stating a list price, with the expectation that the eventual sales price will differ. In this article, we first present a simple model of search behavior that includes the seller setting a list price. Holding constant the mean of the buyers' distribution of potential offers for a good, we assume that the greater the list price, the slower the arrival rate of offers but the greater is the maximal offer. This trade-off determines the optimal list price, which is set simultaneously with the seller's reservation price. Comparative statics are derived through a set of numerical sensitivity tests, where we show that the greater the variance of the distribution of buyers' potential offers, the greater is the ratio of the list price to expected sales price. Thus, sellers of atypical goods will tend to set a relatively high list price compared with standard goods. We test this hypothesis using data from the Columbus, Ohio, housing market and find substantial support. We also find empirical support for another hypothesis of the model: atypical dwellings take longer to sell.

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