

## Lecture 11 - Extremely High Search Costs &amp; the Internet

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- we've seen models where, in presence of search costs, consumers may not search much, may not find low prices, but, in equilibrium, do make purchases.
- what if there were markets where search costs were so high pre-internet that sales were rarely made?
- here, entire markets arose/were transformed by internet search and matching technologies
- leading example: used books
  - many, many titles
  - easily describable/searchable

**Pre-internet**

- used book stores carried inventory, often idiosyncratic, largely beyond their control
- chances of finding a particular title at a used book store is very slim
- paid searches are pretty ineffective
- might find something interesting –looking that you'd be willing to spend \$1 on

**Post-internet**

- firms started aggregating listings from multiple bookstores and posting them online
  - alibris
  - bookfinder
  - bibliofind
  - AbeBooks (Advanced Book Exchange), which was the largest:
    - \* 1996: launched
    - \* 2000: 20 million books
    - \* 2007: 100 million books, 13,000 sellers
    - \* 2008: purchased by Amazon
    - \* 2010: used books appear seamlessly on Amazon searches
- used book sales have exploded, growing as much as 20-30% annually in some recent years (really surprising given somewhat fixed stock)

**Comments**

- suggests large amounts of surplus being realized now that was not before
- would like to know how it's divided between consumers and used book sellers
  - 2 effects:
    - \* more potential customers arriving, some very high value
    - \* increased competition
  - would expect these could vary by type of book
  - prices give us some information

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14.27 Economics and E-Commerce  
Fall 2014

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