

SPATIAL PRICE DISCRIMINATION IN INTERNATIONAL MARKETS

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NON-TECHNICAL SUMMARY

This paper presents a theoretical discussion and an empirical investigation of the impact of distance on the spatial pricing policy of exporting firms.

Firms' fob prices can vary depending on the distance to the destination market for two reasons: (i) firms can charge a different markup (ii) they can offer a product with slightly different quality. In theoretical models, distance generally covers transport costs. This paper shows that the response of firms' prices to changes in distance to the destination market depends on the formulation of transport costs. Assuming additive or iceberg transport costs may imply opposite predictions concerning this relationship. Particularly, to have a positive relationship between prices and distance (because quality and/or markups increase) it is necessary to use additive transport costs. To discriminate among the two formulations, I try to measure the empirical impact of distance on prices.

The empirical analysis is based on French customs export data reporting bilateral export shipments of about 100,000 French exporters and 10,000 products for year 2005. For each flow, bilateral values and quantities are used to compute unit values. Unit values at the firm and product level are used as proxies for prices. The main empirical result is that French exporters set higher prices toward the more remote markets. This result is obtained at the firm and product level. It remains valid when controlling for size, wealth or the level of competition of the destination market.

This finding goes against the predictions of the main models of international trade predicting either a nil or a negative impact of distance on prices at the firm level. It also questions the use of iceberg transport costs. Indeed to have such positive relationship between prices and distance at the firm level, it seems necessary to introduce an additive component in the transport cost.

The empirical analysis does not allow to precisely disentangle whether the observed positive impact of distance on prices is due to higher markups or higher quality. However, some robustness checks show that the first effect is at stake.

J.E.L. Classification: F10, F14, L11.

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