The Effect of Consumer Search Costs on Entry and Quality in the Mobile App Market

**Date:** Thursday, 2 November 2017 – 2 pm

**Venue:** Seminar Room, Department of Economics and Management

**Speaker:** Daniel Ershov – Toulouse School of Economic

**Abstract**

This paper examines the effects of consumer search costs on entry, product design, and quality in online markets. Using 2012-2014 data from the Google Play mobile app store, I take advantage of a natural experiment that reduced search costs for one product type (game apps) in early 2014. Difference-in-differences estimates show that entry increased by 33% relative to the control group (non-games), and that most additional entry was by "niche" products.

These estimates also show that lower search costs reduced the quality of new entrants. To separate out the different welfare effects of this change, I develop and estimate a structural model of demand and supply. I show that there are large welfare gains from reduced marginal search costs, smaller gains from increased product variety, and very small losses from lower product quality.