

# MARKETING COLLOQUIA

FALL 2018

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**Date:** Thursday, September 13, 2018

**Where:** 741 JMHH

**When:** 12:00 PM to 1:20 PM

## **ESTIMATION OF PREFERENCE HETEROGENEITY IN MARKETS WITH COSTLY SEARCH**

*ABSTRACT:* We study the estimation of preference heterogeneity in markets where consumers engage in costly search to learn product characteristics. Costly search amplifies the way consumer preferences translate into purchase probabilities, generating a seemingly large degree of preference heterogeneity. We develop a search model that allows for flexible heterogeneity in preferences, and estimate its parameters using a unique panel dataset on the search and purchase behavior of consumers. The estimation results reveal that ignoring search costs leads to an overestimation of standard deviations of product intercepts by 30%. We show that this bias leads to incorrect inference about price elasticities and markups of sellers and has important consequences for optimal targeted marketing.