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Why Don't Prices Rise During Periods of Peak Demand?

Judith Chevalier, Anil Kashyap and Peter Rossi, American Economic Review, 2003

Why supermarkets cut prices when demand is highest, and the research behind the loss leader.

The big idea

You'd expect prices to go up when demand peaks. Using seven and a half years of weekly checkout data from Dominick's, a Chicago supermarket chain, these researchers found the opposite. The prices of in-demand items often fell at their busiest time of year, and the cuts came mostly from the supermarket's own margin, not from suppliers.

The famous example

The items people wanted most got cheaper exactly when they wanted them most.

TUNA	BEER	SNACK CRACKERS
Lent	**4th July**	**Christmas**
Price down at peak demand	Price down at peak demand	Price down at peak demand

A cheap headline item brings shoppers in, and the money is made on the rest of the trolley.

Why it matters for pricing

This is the loss leader in action. The busiest time of year is when a cheap headline price pulls in the most shoppers, so it's when the headline item matters most. It's the same reason Asda cuts the price of its turkey at Christmas.

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Loss Leaders: IRFU Should Think Turkeys, $2 Hot Dogs and Follow the Falcons
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Read the original
Chevalier, J. A., Kashyap, A. K. & Rossi, P. E. (2003). Why Don't Prices Rise During Periods of Peak Demand? Evidence from Scanner Data. *American Economic Review*, 93(1), 15–37.
nber.org/papers/w7981 (free to read)

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