

# Information Spillovers in Experience Goods Competition\*

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## Abstract

When experience goods compete, consuming one product can be informative about value for similar untried products. We study duopoly competition in markets that have this feature and where firms can price discriminate between consumers based on purchasing history. Price dynamics, firm profits, and consumer surplus depend on how information spillovers shape demand from the consumers who have trialed the rival product—the potential switchers. Rather than competing intensely in the first period for all future profits, firms compete for the difference in profits between repeat and switching consumers. Demand-side information spillovers offer an explanation of how competing firms in new product markets can be profitable in all periods even when selling ex ante homogeneous products.

*Keywords:* Experience goods, Duopoly, Behavior based price discrimination, Product differentiation

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