

The Pricing Behavior of Exiting Retailers and Their Rivals in a Demand-Declining Industry^{*†}

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Abstract

This study examines the pricing behavior of exiting retailers and their competitors in a demand-declining industry. I develop a theoretical duopoly model with declining demand, where one firm cuts its prices to make the other exit the market to earn monopoly profits. The model provides testable implications that when a firm exits the market, its rivals lower (increase) their prices before (after) the exit. To examine these implications empirically, I use store-level daily price data on the gasoline retail industry in Japan. I find that the neighbors of exiting stores lower their prices before the exit and increase them after. This is consistent with the implications of the theoretical model. Moreover, I do not find evidence that exiting stores lower their prices before their exit; that is, they do not set fire-sale prices.

^{*}The latest version of this abstract is [here](#).

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