

Sticky Prices: Why Firms Hesitate to Adjust the Price of Their Goods

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Price stickiness—the tendency of prices to remain constant despite changes in supply and demand—has been linked to firms’ unwillingness to pay the costs entailed in setting, implementing, and advertising new prices. However, there is little consensus on the size and importance of these “repricing costs.” Taking the imported beer market as their subject, the authors of this study find repricing costs to be markedly higher for manufacturers than for retailers and conclude that, at the wholesale level, these costs are a significant deterrent to price adjustment.