

# Multimarket Contact and Price Discrimination

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## **Abstract**

Theoretical and empirical studies have demonstrated that multimarket contact facilitates tacit collusion and leads to higher prices. In this study we examine how multimarket contact influences firms' use of price discrimination. First, we present a simple theoretical example to demonstrate that additional contact can lead firms to increase or reduce price discrimination, depending on underlying market factors. Next, we empirically investigate how price discrimination in the U.S. airline industry is affected by multimarket contact. A new empirical approach is employed to isolate the effects of multimarket contact and better control for unobserved demand and supply factors. Our results suggest that multimarket contact causes airlines to discriminate more between some consumer groups but less between others. The findings offer new insights on the influence of multimarket contact and also on the broader relationship between competition and price discrimination.