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The Economics of Information, Frictions, and Consumer Behavior

My research concerns the dynamic effects of informational frictions on consumer behavior, with a focus on consumer search and the use of online platforms. In particular, I examine if new information sharing tools can lower search costs to mitigate or even eliminate frictions that have traditionally fettered economic activity.

In my job market paper, “The Geography of Bidder Behavior in Peer-to-Peer Lending Markets”, I study how geography affects bidding behavior on the Peer-to-Peer lending site Prosper.com, called the eBay of loans. Most of the existing theory predicts that investors (lenders) and borrowers will tend to be located relatively close to each other due to the cost of information gathering and monitoring. However, recent research on crowdfunding suggests that the online platforms have the potential to reduce these frictions and relax the geographic constraints on investing. In this paper, I start by documenting that geography still matters and has a large effect on bidder behavior. I find that local bidders tend to bid earlier and larger amounts than nonlocal bidders, on average. Moreover, I find that local bidders are more informed in the sense that they are better able to price the underlying risk of borrowers. Local bidders bid significantly higher interest rates on loans that ex-post default and lower rates on loans that ex-post paid back in full than nonlocal bidders. I also develop a simple model of social learning with heterogeneous agents that provides testable predictions for the Prosper market. My empirical results are consistent with these predictions: a listing with more early local bidding will attract more bidders into auction leading to a higher probability of getting funded and a lower final interest rate.

My second paper, co-authored with Jason Blevins, titled “Dynamic Selection and Distributional Bounds on Search Costs in Dynamic Unit-Demand Models”, develops a dynamic model of consumer search that, despite placing very little structure on the dynamic problem faced by consumers, allows us to exploit intertemporal variation in within-period price and search cost distributions to estimate the population distribution from which consumers' search costs are initially drawn. We show that static approaches to estimating this distribution generally suffer from a dynamic sample selection bias because forward-looking consumers with unit demand for a good may delay their purchase in a way that depends on their individual search cost. We analyze identification of the population search cost distribution using only price data and develop estimable nonparametric upper and lower bounds on the distribution function and a nonlinear least squares estimator for parametric models. We apply our estimators to analyze the online market for two widely used econometrics textbooks. Our results suggest that static estimates of the search cost distribution are biased upwards, in a distributional sense, relative to the true population distribution. In a small-scale simulation study, we show that this is typical in a dynamic setting where consumers with high search costs are more likely to delay purchase than those with lower search costs.

My third paper, “Search Frictions and Vertically Differentiation: An Analysis of Consumer Behavior in the Television Market”, examines consumer search behavior in the market for 3D enabled high definition televisions. Utilizing Wildenbeest's 2011 methodology, I study price dispersion in a vertically differentiated market and separately identify the effects of search friction and product differentiation on price. I estimate that 62.9% of the price variation in this market is explained by search friction with the rest being attributable to vertical differentiation. Furthermore, I find that the search intensity in this market is relatively low: I find that 67% of consumers only search one store while just 8% of consumers search all the stores. In the 3D HDTV market search frictions are relatively more important than vertical differentiation in explaining the degree of price dispersion.