Comments on

The Geography of Trade on eBay and MercadoLibre

by Ali Hortaçsu, F. Asis Martinez-Jerez, and Jason Douglas

Michał Grajek

(European School of Management and Technology)
Brief Summary

- **Aim of the paper**
  - Analyze geographic patterns of Internet trade on the basis of Internet auctions (eBay and MercadoLibre)
  - In particular, analyze to which extent Internet alters the impact of distance on trade flows

- **Theoretical framework**
  - A simple auction model—an adaptation of a discrete choice model à la McFadden (1973)—yielding multinomial logit winning probabilities, which in turn give rise to a gravity equation of trade intensity between buyers and sellers from different groups/locations

- **Empirical model**
  - Gravity equation:
    \[ \log(\text{# of purchases by } b \text{ from } s) = \log(\text{total # of goods sold by } s) + \log(\text{total # goods bought by } b) + \mu(b, s) + \ldots \]
    
    “distance effect”
Brief Summary

- **Main results (at the state level)**
  - Robust negative effect of distance (albeit 10 times smaller than in the Census data on interstate commodity trade)
  - Robust positive home bias (of similar magnitude as in the Census data)
  - Shipping costs are important, but do not fully explain the distance effect
  - Both the home bias and the distance effect increase for sellers with bad reputation => trade security and contract enforcement issues are one possible explanation

- **Further results (at the city level)**
  - Distance effect is highly nonlinear: Excessive amount of trade concentrates within “driving distance”/city limits; additional effect of longer distance is much smaller and further decreases
  - “Driving distance” effect varies across categories of items =>
    - Location-specific consumption (theatre tickets)
    - Uniqueness of item (coins and collectibles)
    - Trade security (expensive items)
Comments

- Other (complementary) explanation of the home bias/"driving distance" effect:
  - Asymmetric information between buyer and seller about the quality of item (possibility to test when the seller is within the driving distance) => empirical test: online shops (payback guarantee) vs. individual sellers (no guarantee)
  - Saving on shipping costs

- Auctions are assumed to be independent in the theoretical model. Allowing for repeated auctions can interfere with the identified distance effect:

\[ v_{bs} = \gamma + \mu_{bs} + \epsilon_{bs} - \Pr\{b,b\}(\mu_{bb} - \mu_{bs}) \]

Original willingness to pay repeated auctions' amendment

- Probability of buying the item in another auction from a local seller of type \( b \) (i.e. saving on shipping costs) might further discourage long-distance relations
- If the item is unique, however, \( Pr\{b,b\} = 0 \), hence the distance effects is reduced, which is consistent with the empirical results in the paper
Minor points

- Parameter $\gamma$ (fundamental value of the item) cancels out in the winning probability equation, and is redundant, as it does not enter the gravity equation.

- Definition of trade cost variable, as an absolute rather than relative measure would be more consistent with the theoretical model and should be preferred.

- Similar for trade intensity’s definition: total # of transactions should be preferred over total dollar value of transactions.