**Beliefs and Consumer Search in a Vertical Industry**

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**Abstract:**

This paper studies vertical relations in a search market.

As the wholesale arrangement between a manufacturer and its retailers is typically unobserved by consumers, their beliefs about who is to be blamed for a price deviation play a crucial role in determining wholesale and retail prices.

The common assumption in the consumer search literature is that consumers exclusively blame an individual retailer for a price deviation.

We show that in the vertical relations context, predictions based on this assumption are not robust in the sense that if consumers assign just a small probability to the event that the upstream manufacturer is responsible for the deviation, equilibrium predictions are qualitatively diﬀerent.

For the robust beliefs, the vertical model can explain a variety of observations, such as retail price rigidity (or, alternatively, low cost pass-through), non-monotonicity of retail prices in search costs, and (seemingly) collusive retail behavior.

The model can be used to study a monopoly online platform that sells access to ﬁnal consumers.