Abstract

How quickly do new entrants learn about demand and adapt to the new market? We study retailer pricing in the Washington State liquor market where its privatization leads to existing grocery chains entering this market for the first time. We document large price changes across a broad range of products and provide novel evidence showing that these changes result from retailers learning about demand: prices absorb realized demand shocks and adjust to better reflect demand primitives. We then estimate a structural model with minimum assumptions on the optimality of observed prices. Comparing against the full-information optimal prices implied by the model, we find that (1) learning exists years after entering the new market, (2) upon entry, limited demand information causes 11% lower profit compared to full-information, and (3) there are sizable heterogeneity between retailers in initial information sets and in learning rates.