Do observational methods recover true price elasticities Experimental evidence

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Abstract

We compare observational and experimental price elasticities using data from a massive brick-and-mortar experiment run by a Midwestern grocery retail chain, affecting 826 products and 83 stores for 11 weeks. We find that observational elasticities are larger in magnitude than experimental elasticities for about 98% percent of products, and that the median ratio between the two elasticities is about 2-3. Our results are robust to alternative specifications and cannot be explained away by product-specific or store-specific elasticity trends.