

How much is a dollar worth? Arbitrage on eBay and Yahoo

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Abstract

This paper uses field experiments to identify substantial and persistent arbitrage opportunities on online auctions sites. Auction and two-sided market theory require price disparity to be small for competing sites of different sizes to coexist in equilibrium. Yet, statistical evidence suggests a violation of this no arbitrage condition in eBay and Yahoo coin markets. Buyers on eBay pay 20 to 60 percent more than those on Yahoo, despite buyer and seller mobility between sites. The magnitude of the revenue difference is striking, overwhelming possible rationales relating to information availability, the value of reputation and trustworthiness of site users. The price disparity may signal unexploited opportunities or represent a market in transition.