

Fading Choice: Transport Costs and Variety in Consumer Goods

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Abstract

The lack of market development in remote areas is usually measured by the prices for a given set of consumer goods. We focus instead on the way distance constrains the variety in choices facing consumers. We construct a model of monopolistic competition between traders. An increase in transport costs reduces consumer welfare not only through lower incomes and higher prices but also through reduced availability: choice fades with distance.

The model allows for heterogeneity of villages in terms of market size and the distribution of income. We test the model using data from a purpose-designed survey of shops and consumers in rural villages in Ethiopia. We find that distance dramatically reduces variety while income inequality raises it. We also examine the welfare costs of losses in variety and its implications.