Summary

In the textbook economic model, consumers always purchase the product that fits them the best. However, many markets have features that prevent consumers from obtaining their best match. This thesis uses recent changes to the Dutch mortgage market to gain a better understanding of such frictional markets. By doing so, it contributes to a wider academic literature that aims to understand the effects of such frictions and what policy makers can do about them.

Chapter 1 empirically studies the prohibition of history-based price discrimination in the Dutch mortgage market. History-based price discrimination is a strategy firms employ when it is costly for consumers to switch to a different provider. Under this type of price discrimination, a firm’s existing customers are charged higher prices than new customers as the first group is “locked in” due to switching costs. It finds that for an average mortgage, banning history-based price discrimination increases welfare by €125 per year and consumer surplus by €415 per year, while bank profits drop by €290 per year.

Chapter 2 studies the effect of competition in markets with switching costs. Theoretically, I show that an increase in competition, as measured by the number of firms active in a market, amplifies the dynamic pricing incentives firms have in markets with switching costs. Empirical support for the theory is found by studying recent entry by pension funds into the Dutch mortgage market.

Chapter 3 theoretically studies the regulation of financial advisers. Some regulators have banned commission payments to financial advisers, because they might lead to biased advice. When commissions are banned, advisers charge consumers a fixed fee. To investigate when fee-based advice is preferable to commission-based advice, this chapter builds a theoretical model of advice that takes into account the entry and exit of advisers. For a fixed number of advisers, a ban on commissions increases consumer
surplus because advisers are no longer biased. The ban however hurts the profitability of advisers, so that in the long run, they exit the market, advice becomes inaccessible and the ban no longer benefits consumers. These results can explain why commission bans might cause an “advice gap” and imply that accounting for the endogenous structure of the market is important when regulating advice.