Published on *Adam Smith Institute* (http://www.adamsmith.org)

Mobile Phones and Prices [1]

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No, not about the prices of mobile phones, but what mobile phones do to prices. We already know that better communications technology is correlated with a rise in the growth rate of GDP. A new paper helps to explain quite why [3]:

> *In this paper we provide some estimates of the nature, magnitude and distribution of the effects of cell phones on grain market performance, traders? behavior and consumer and trader welfare in Niger. The introduction of cell phones reduced price dispersion across grain markets, with a larger increase for those markets that were farther apart and over time.*

"Price dispersion" meaning different prices at different markets, whether markets in different places or on different days. The actual results are that those disparities in prices are reduced by some 6.4 % across markets and 10% across time. The reason why should be fairly obvious: grain traders, instead of having to travel to a market to find out what the prices are can simply phone somone and ask them. This means that they can monitor more markets and thus work out where best to buy and sell. That many such traders are doing so makes the whole process more efficient.

As the researchers conclude, mobile phones are therefore probably Pareto-improving: some have been made better off and none worse off, a highly desirable state of affairs.

In the larger scheme of things this does suggest some options for how we might aid growth in such poor countries. Yes, some, as with the authors of this paper, suggest subsidising mobile phone systems. Given that private companies are entirely happy to build such networks as long as they are allowed a licence, this would seem unneccessary (as with the Niger system itself). Encouragement to governments to issue such licences might seem to be all that is required. But more important than that even is the lesson that improving the ability of markets to function benefits all, so we should be encouraging those things which improve said functioning.

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