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Title: Market equilibria in retail markets with heterogeneous switching costs

Abstract: Switching costs is the term used when a consumer incurs a cost when switch- ing from one firm to another when procuring a certain good. Switching costs have been examined in the literature since the 1970s, and can raise or lower equilibrium prices, depending on the market structure and the nature of the consumers' utility function. New research from the behavioural sphere has ex- panded the notion of switching costs to a broader consideration of the propensity to switch - the likelihood of a given consumer to buy from a different firm, which is a function of, but not solely driven by, switching costs.
This research examines two underexplored and related phenomena. The first is heterogeneous switching costs. The majority of the literature assumes that all consumers have the same switching cost. The second phenomenon is that of "teaser" rates, where firms provide a discounted tariff to new consumers, who then revert to a standard tariff after the introductory period has lapsed. Consumers will choose the optimal firm taking into account their current firm's nondiscounted tariff, rival firms' "teaser" tariffs, and their switching cost. Firms choose their optimal discounted and non-discounted tariffs, setting their non-discounted tariff high enough to retain their consumers that have a low propensity to switch, without setting it so high that they lose consumers to a rival firm with a low "teaser" rate. The problem takes the form of solving a set of nonlinear optimisation problems in equilibrium. Possible extensions include the optimal actions of a regulator tasked with reducing market prices, and the incorporation of random error in the consumers' choice of firm, motivated by the empirical observation that even when consumers do switch energy provider, they do not always choose the lowest possible alternative tariff.

Key words: Tariffs; switching costs; equilibrium modelling