

James Feigenbaum

Abstract

When acquiring information about potential buyers is costly, sellers will be unable to make the best possible match. We capture the consequences of this in a model where producers make investment decisions anticipating their future response to search costs. When one good has higher information frictions than another, decreasing those frictions increases production of that good along the extensive and intensive margins, and given specialization constraints production of the other good will decrease. Using a novel dataset on the roll-out of free postal delivery in rural communities in the US at the turn of the 20th century, we find evidence in line with the predictions of the model, as investment in manufacturing significantly increased in counties which got more free delivery routes, while investments in agriculture significantly decreased. We also find significant increases in newspaper circulation in these counties, suggesting that newspapers may have played an important role in reducing information frictions.