

A Dynamic Model of Rational “Panic Buying”

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Abstract

This paper analyzes panic buying of storable consumer goods, using a dynamic inventory-adjustment model featuring search frictions in shopping. Even if consumers are fully rational, an anticipated temporary increase in consumer shopping costs (caused by a disaster itself or a state of emergency) can trigger an upward spiral of hoarding demand and result in serious panic buying and misallocation of storable goods due to a coordination failure. We demonstrate that price controls help in mitigating hoarding if retail prices are rigid in nature. We propose several welfare-enhancing policy options, such as taxes on purchases and direct distribution of basic necessities, and argue that the timing of policy interventions crucially influences their effectiveness.

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