

Some Welfare Effects of Mandatory Refunds under Imperfect Competition

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Abstract

Mandatory refund policies (or cooling-off periods) dictate that, for a limited time, firms must offer consumers the right to return a product in exchange for a full refund. Despite their common use in consumer protection policy, little is known about their potential side-effects on market competition. To address this, we analyze how mandatory refund policies affect competition and welfare in a framework that flexibly accommodates a range of different competitive settings. Among other results, we show how a mandatory refund policy can weakly increase consumer surplus in a monopoly context, but damage consumer surplus in markets that are sufficiently competitive.

Keywords: Refunds; Cooling-Off Periods; Consumer Protection; Competition

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