

We investigate experimentally how firms and consumers react to a sudden cost increase in a competitive retail market. We compare two conditions that exclusively differ with respect to how difficult it is to organize and enforce boycotts. We find that cost increases translate into sudden price increases, and that consumer boycotts are frequent in response. However, consumer boycotts are unsuccessful in holding down market prices even if collective action problems are completely eliminated. While consumer boycotts do not increase consumer rent, they reduce market efficiency. Consumer boycotts apparently serve to punish firms for seemingly unfair price increases.