Money and the Variety of Goods.

Abstract: We examine how money and heterogeneous preferences interact in determining product variety. Sellers choose whether to produce generic goods liked by almost everyone or specialize in production of specific goods loved by few. An interesting implication of the model is that there is a non monotonic relationship between search frictions and the variety of goods produced in the economy. First, money expands the variety by facilitating exchange, but then further improvement of the exchange process leads to a reduction in the number of goods.