

Summary: “Optimal Cartel Output in Two Sided Markets”

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This paper studies the optimal collusive equilibrium in two sided markets. Two newspapers produce two differentiated goods, and address two different markets: readers and advertizers.

Readers derive utility from reading the two newspapers, while are negatively affected by the amount of advertising. Advertizers' utility is positively correlated to the number of readers.

We study how the two-sided interaction between the firms affect the prevailing collusive price in the market.

In a regular one-sided market, under linear demand and substitute goods, the Pareto-optimal, from the firms' standpoint, collusive outcome prescribe an aggregate output weakly above (below) the monopoly level, when products are substitutes (complements), both under Cournot and under Bertrand competition.

In two sided markets, while the two products are substitutes on each side, the network externalities between the two sides may generate a cross-side complementarity. This changes the collusive incentives. In particular, we find that, under Cournot competition, cartel stability may require, under a condition of strong indirect network externality, producing a lower-than-monopoly newspaper output in the collusive arrangement, with a detrimental effect on welfare. Under Bertrand competition, it may be optimal to price above monopoly on the advertizing side.