

Competition & Ideological Diversity

Matthew Gentzkow, Jesse M. Shapiro, Michael Sinkinson

5th FTC Microeconomics Conference

November 15-16, 2012

Lisa George

Hunter College and the Graduate Center, CUNY

Overview

- Two-sided market model of newspaper entry with (binary) political alignment
- Estimated on 1924 cross section of newspaper affiliation, subscription revenue, ad revenue, costs along with observed and unobserved ideologies.
- Parameter estimates measure relative importance of business stealing effects vs differentiation effects in equilibrium.
 - Measure of unobserved preferences
 - Optimal vs actual diversity
- Evaluate (contemporary) policy effects on welfare
 - Joint determination of subscription price, advertising price, both.

Model

- Readers:
 - Like partisan match (diversity), like lower prices (competition)
 - Allow multiple consumption.
 - RF: Greater **R** share, greater **R** circulation
 - RF: More **R** papers, lower average **R** circulation/paper
- Newspapers
 - RF: Greater **R** share, entrant more likely to choose **R**
 - **R**

Advertising

- Advertising model is crucial (Anderson, Foros & Kind, 2011)
 - Advertisers: $\sum_{i_m \geq 1} [a_h + (n_{i_m} - 1)a]$
 - Newspapers: $a = a_h(\text{exclusive}) + a(1 - \text{exclusive})$
- $a < a_h$ consistent with:
 - Lower ad prices for overlapping readers
 - Advertising competition strengthens incentives for differentiation
 - Alternatives?
 - Vertically differentiated advertisers, increasing ad capacity
 - Advertising MC?
 - Heterogeneous valuations (day/evening)?
- More generally: dimensions of diversity?

Policy Simulations

- Competition Policy
 - Subscription price collusion: Higher subscription price, lower readership, more entry/diversity.
 - Ad price collusion: higher ad revenues, lower consumer prices, more entry. Huge increase in surplus.
- Depends on outside options for advertisers – newspapers today do not have this market power.
- Firm behavior today suggests readers, not advertisers, are the inelastic side of the market.

Independent Newspapers



Conclusions/Extensions

- Newspaper world 1924
 - Many papers
 - Strong party affiliation, weak demographic affiliation
 - Elastic consumers, inelastic advertisers
- Contemporary world
 - Few papers
 - Weak party affiliation (median voter), strong demographic affiliation
 - Inelastic consumers, elastic advertisers
- How did we get here?
 - Partisan newspapers are bad news for advertisers.
 - Segment the market in ways not valuable to advertisers
 - “Ideal” segmentation splits market in dimensions consistent with reader preferences and advertiser values.
 - Partisan newspapers are a costly way of producing truth

Minor Points for Authors

- Discuss applicability of results to current markets
- Limitations of binary party choice vs unaffiliated.
- RF evidence is conditional: consumers prefer matching partisan papers to opposing ones, not necessarily to independent ones.
- Ambiguous terms for business-stealing vs differentiation incentives?