



- Economic model of media competition and ideological diversity
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 - News outlets choose markets and ideological positions strategically
 - Outlets compete for consumers and advertisers

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- Estimate on data from US newspapers in 1924
 - Explicit party affiliations
 - Many competitive markets

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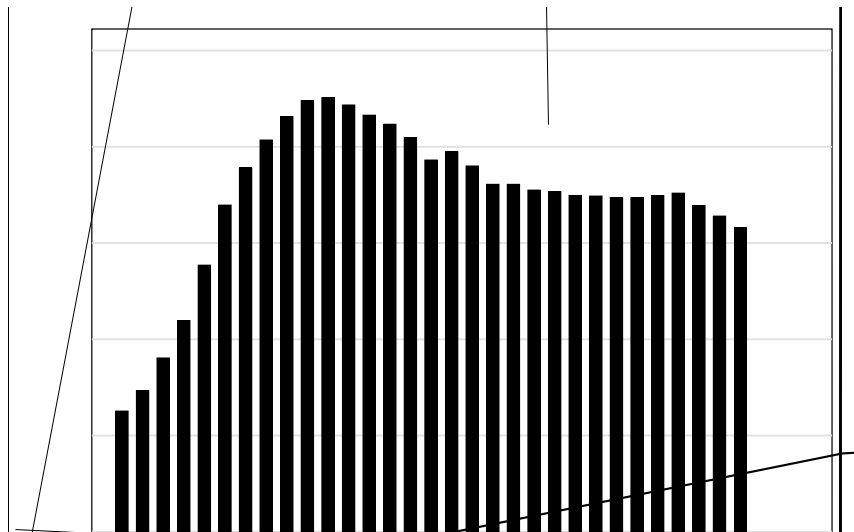
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- Novel strategy to address core identification issue
- Use estimated model to decompose drivers of diversity and evaluate policies

Historical Background

Number of Papers



2,000 Number of Daily Newspapers

- Determines appeal to readers
 - *Detroit Free Press* (1868): "The *Free Press* alone in this State is able to combine a Democratic point of view of our state politics and local issues with those of national importance."
 - *Detroit Post* (1872): "To meet the demands of the Republicans of Michigan and to advance their cause."
- Strongly related to news content
 - Share of mentions going to Republican presidential candidate (Gentzkow, Shapiro and Sinkinson 2011)
 - Scandal coverage (Gentzkow, Glaeser and Goldin 2006)
- Important source of product differentiation (Scripps 1879)

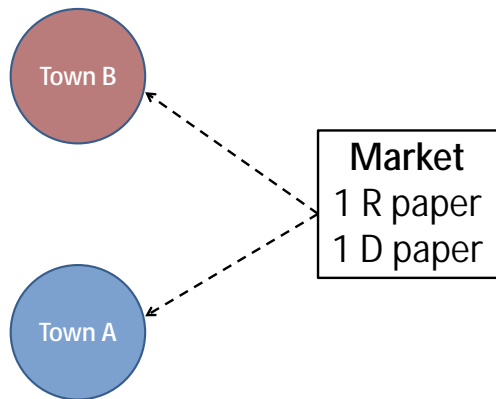
Data

Cross-Section of Markets

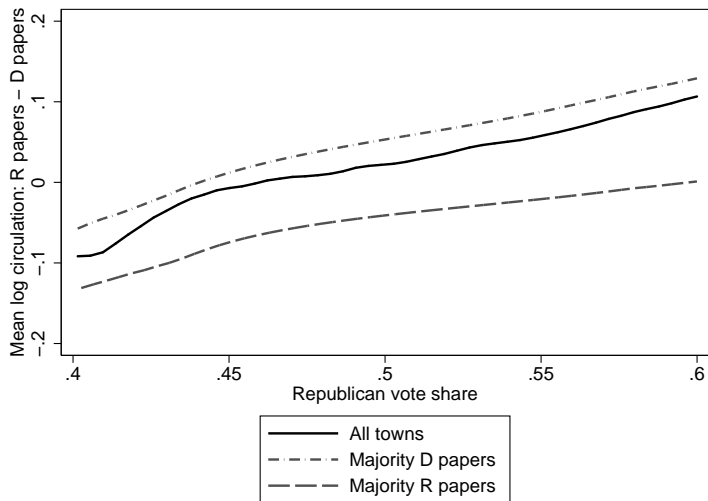
- Universe of potential daily newspaper markets in 1924
 - At least one weekly newspaper
 - Population $\geq [3k; 100k]$
- Identify all English-language daily newspapers in 1924
 - Rowell's/Ayer's annual directories of U.S. newspapers
 - Declared political affiliation (Republican/Democrat)
 - Order of entry
 - Subscription price
- Republican share of two-party vote
- Anonymized balance sheets from Inland Press Association

Descriptive Evidence

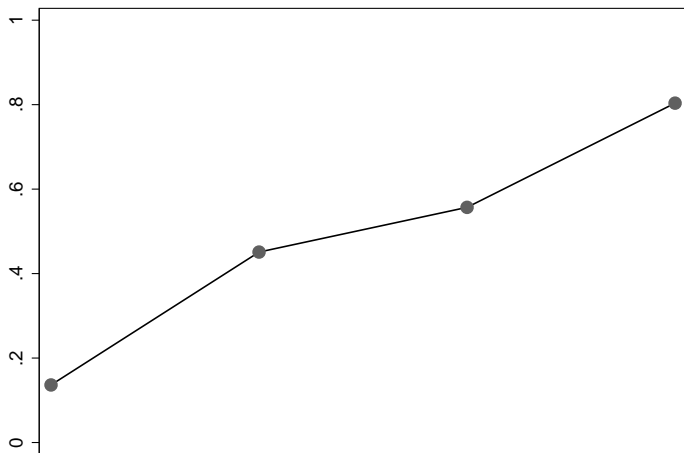
Demand for Partisanship



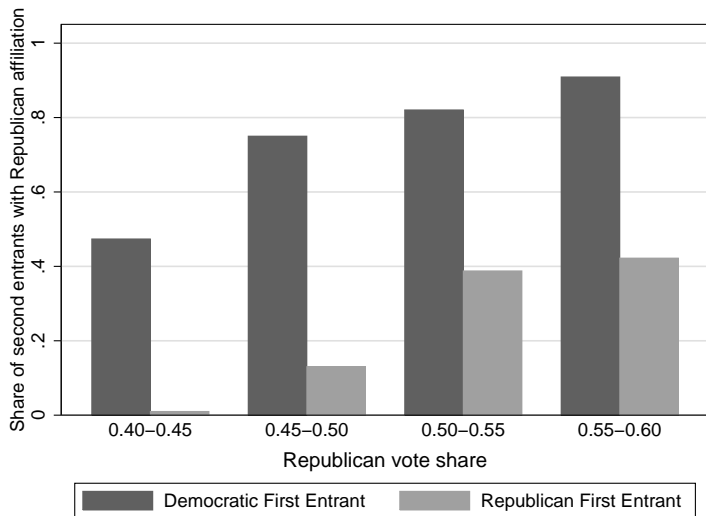
Demand for Partisanship



First Entrant A liation



Second Entrant Affiliation



Identification

Separating Competition and Unobservables

	Incumbent A	Incumbent B
	Democratic	Republican
Share of Entrants Choosing R		
Incumbent's Own Market	.50	.53
Neighboring Market	.33	.66

Spatial Correlation



Order of Moves

- 1 Entry decision
 - 2 Sequential choice of liabilities
 - 3 Simultaneous choice of prices
 - 4 Simultaneous choice of ad rates
 - 5 Households make purchase decisions
 - 6 Profits realized
- Start at the end and work backwards...

Estimation

Results

Key Supply Model Parameters

Advertising revenue (\$ per year) for:

Exclusive reader (a_h) 13.2811

Non-exclusive reader (a_l) 6.5121
(0.8944)

Standard deviation of a liability cost shocks () 0.1054
(0.0874)

- Good fit to reduced-form facts
 - Key regression results
 - Average fixed cost: \$8.87 (model) vs \$7.56 (balance sheet data)
 - Fixed costs per capita decline slowly with market size (also consistent with balance sheet data)

Determinants of Diversity

Markets with

Share of Hhlds Reading

Determinants of Diversity

	Markets with Diverse Papers	Share of Hhlds Reading Diverse Papers
Baseline	140	0.036

When choosing a liability:

Determinants of Diversity

	Markets with Diverse Papers	Share of HHlds Reading Diverse Papers
Baseline	140	0.036
When choosing a location:		
Ignore competitors' choices	87	0.022
Ignore household ideology	208	0.048

Determinants of Diversity

	Markets with Diverse Papers	Share of Hhlds Reading Diverse Papers
Baseline	140	0.036

When choosing a liability:

Equilibrium vs Social Planner

	Baseline	Social Planner: Post-Entry	Social Planner: Entry & Post-Entry
Multi-paper markets	249	249	1884
Avg. annual subscription price	6.22	0.33	0.78
Consumer surplus	3.35	6.87	19.55
Firm+advertiser profit	0.91	2.78	-9.53
Total surplus	4.26	9.65	10.02
Markets w/ diverse papers	140	182	1590
Hhlds reading diverse papers	3.6%	12.3%	53%

- No conflict between traditional economic welfare and ideological diversity
 - Entrants don't internalize full benefit to consumers (Spence 1975)
 - Business-stealing externality (Mankiw and Whinston 1986) small due to overlap

Subsidies

- Newspaper subsidies common around the world
- Focus on two specific policies
 - Fixed cost subsidy for second and later entrant modeled after policy in Sweden
 - Marginal cost subsidy for all papers modeled after US postal subsidies

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- Key qualitative findings:
 - 1 Competition is a key driver of diversity
 - 2 No tradeoff between economic and political policy goals
 - 3 Policy evaluation depends crucially on two-sided market effects