

# Competition & Ideological Diversity

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# Outline

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- Conclusions/Extensions

# 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  $R$
  - RF:  $R$  incumbent reduces likelihood entrant chooses  $R$
  - Entry, affiliation, reader price, advertising price
- Advertisers
  - Homogenous value for readers, outlets
  - Diminishing returns to repeat impressions

# Advertising

- Advertising model is crucial (Anderson, Foros & Kind, 2011)
  - Advertisers:  $\sum_i 1_{n_{im} \geq 1} [a_h + (n_{im} - 1)a_l]$
  - Newspapers:  $a_{jm} = a_h(\text{exclusive}_{jm}) + a_l(1 - \text{exclusive}_{jm})$
- $a_l < a_h$  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

- Newspaper affiliation is a binary choice (R, D)
  - Independent (*I*) newspapers are dropped or classified by past affiliation.
- Future work: Chose *I* in dynamic context
- Here: Intuitive implications of binary choice?
- Also: Better reasons than continuity of D/R mentions.

# 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?