Competition & Ideological Diversity
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Outline

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• Model
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  – Advertising
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  – Independent Newspapers
• 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: $\sum_{i=1}^{n} a_{h} + (n_i - 1)a_{l}$
  - 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?