

Selection Markets

Discussion of Glen Weyl
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Higher prices select high WTP consumers
over low WTP consumers ...

... but if high WTP are **more costly** to the firm than low WTP
consumers, prices select **adversely**

... but if high WTP are **less costly** to the firm than low WTP
consumers, prices select **advantageously**.

Selection markets are markets where consumers have **consumer-specific costs** to the firm.

As consumers select firms based on price, unless there are consumer-specific prices, a firm's price may alter its costs and the costs of other firms.

When costs are non-linear, competition always altered firm costs in the short-run. Here, as costs are consumer-specific, so cannot rely on entry to help.

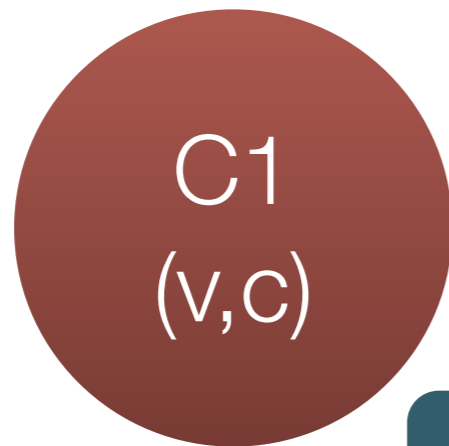
With selection markets, **what changes?**

Consumers still benefit from competition

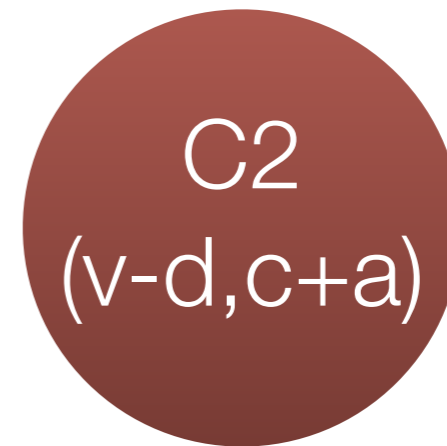
Firms still profit from less competition

Under advantageous selection, competition may be destabilising but a marginal move to monopoly is bad.

Interactions between market power and price discrimination hinge on type of selection.



$$v > c$$

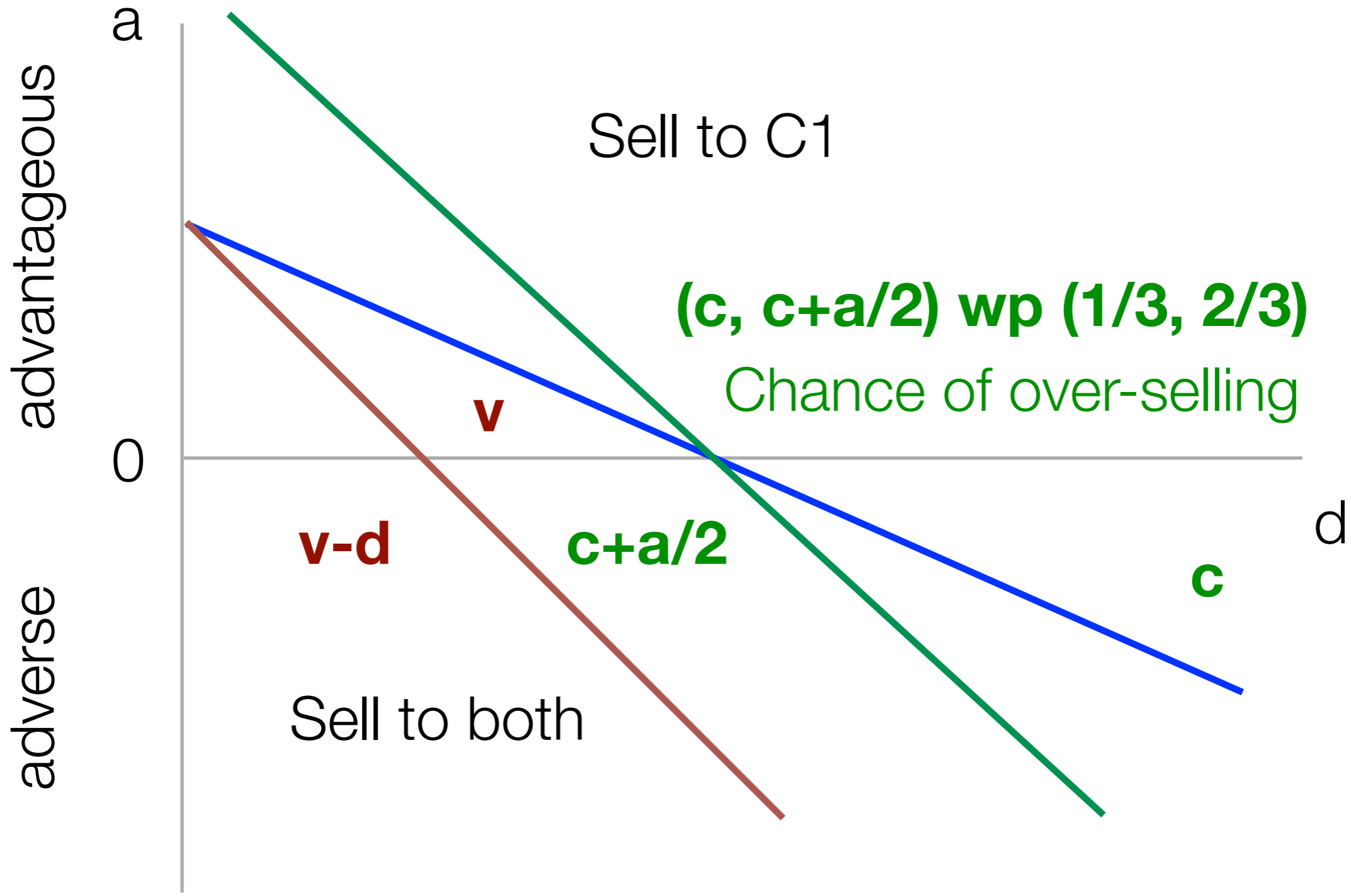


Social optimum: Supply both (C1 only) if $v >(<) c + a + d$

Monopolist: Supply both (C1 only) if $v >(<) c + a + 2d$

Competition: Supply both (C1 only) if $v >(<) c + a/2 + d$

What happens to prices?



consumer WTP heterogeneity

