

SEMINAR SERIES on ICTs POLICY RESEARCH

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Dynamic Price Competition with Network Effects

Abstract:

I consider a dynamic model of competition between two proprietary networks. Consumers die and are replaced with a constant hazard rate. Firms compete for new consumers to join their network by offering network entry prices (which may be below cost). New consumers have a privately known preference for each network. Upon joining a network, in each period consumers enjoy a benefit which is increasing in network size during that period. Firms receive revenues from new consumers as well as from consumers already belonging to their network. Using a combination of analytical and numerical methods, I discuss various properties of the equilibrium. I show that very small or very large networks tend to price higher than networks of intermediate size. I also show that, around symmetric states, the gap between the large and the small network tends to widen (increasing dominance) whereas the opposite is true (reversion to the mean) around very asymmetric states.

Tuesday, March 25th 2008 6pm

Room 7.21, 7th floor, North Tower, Instituto Superior Técnico

Refreshments provided

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