Discussion of Skewed Pricing (Bolt and Tieman)

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Topic: Platform (or matchmaker) pricing

Question: How come that in a market that is two-sided, pricing is one-sided?

Answer: It all depends on relative elasticities of demand (one side relative to the other)

Model formulation

A party subscribes to the service if her personal benefit exceeds the fee she is being charged, $b_i t_i$

If H is the distribution of benefits in the population this generates one side's demand as $D_i(t_i)=1-H_i(t_i)$ and overall demand

$$D(t_1,t_2)= D_1(t_1)D_2(t_2)$$

If platform services are provided by a monopoly her objective is to maximize

$$\pi(t_1,t_2,c)=N(t_1+t_2-c)D(t_1,t_2)$$

Profit maximizing fees are going to depend on demand (D) elasticities

Two cases are possible: One in which pricing is “interior,” having some but not all potential users subscribe; the other is “corner,” where all users of one side subscribe (no one subscribes is not an optimum since seller sells to no one and makes zero profits in this case).

The first case is characterized by FOC

$$\frac{1}{t_1+t_2-c}=-\frac{(D_1)'}{D_1}=-\frac{(D_2)'}{D_2}$$

The second case is characterized by one side participating fully and for the other side the same condition applies

Rochet and Tirole: If the optimum is interior and if elasticities are uniformly ordered the more elastic side of the market pays more

Bolt and Tieman: If demand elasticities are constant and if one elasticity is sufficiently high and its lowest valuation is sufficiently small the less elastic side of the market pays more

Unexplored research opportunities

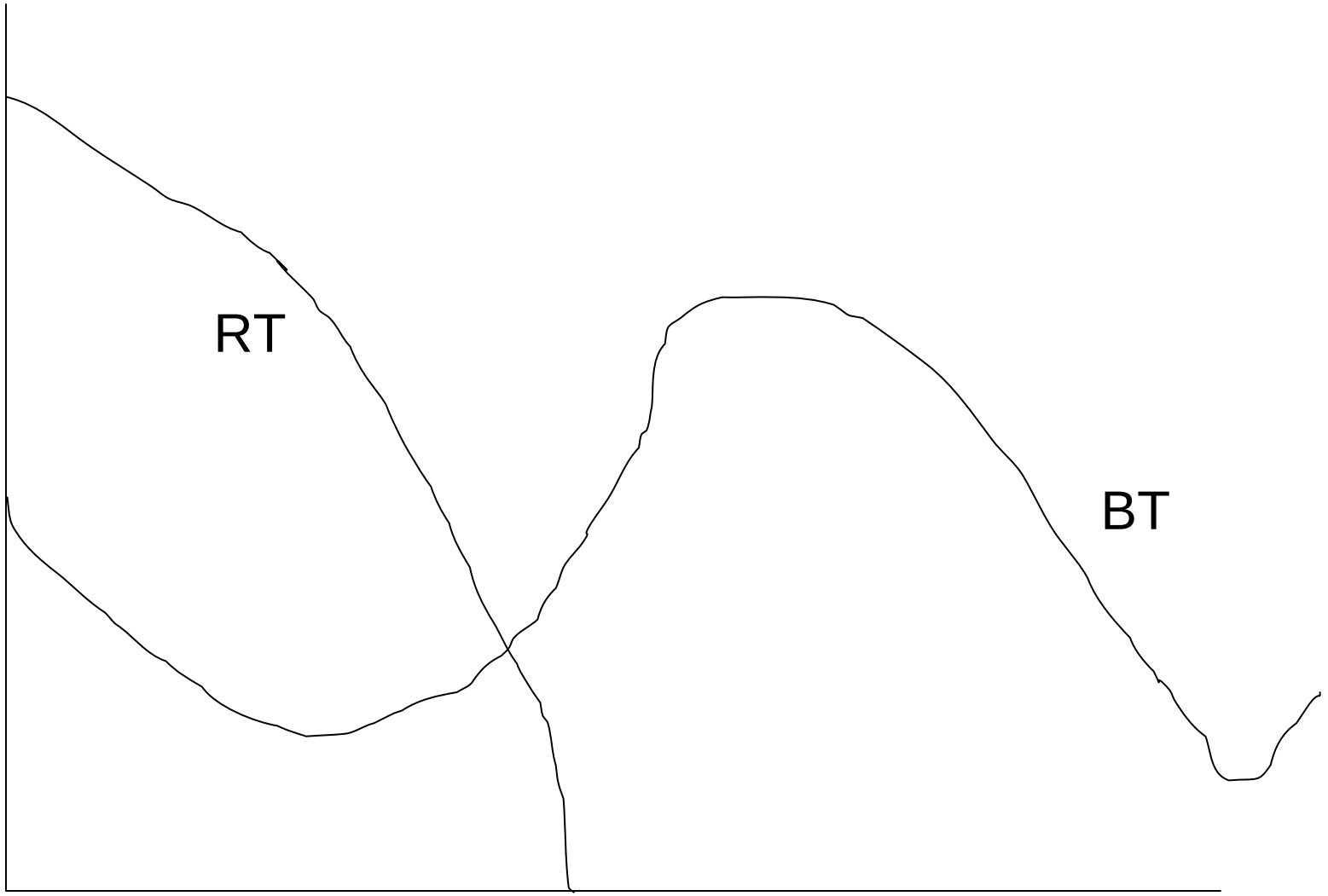
1. In RT there may also be a corner optimum, exhibiting similar features to BT

2. In RT without uniform ordering of elasticities the optimum may again exhibit similar features to BT

3. In BT if elasticity is below the critical point or if lowest benefit is above

the critical point the optimum may feature similar features to RT.

Exploration of these possibilities may give a clearer picture of what drives pricing based on demand considerations


RT
BT