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.
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?

Sell to C1

\[(c, c+a/2) \text{ wp (1/3, 2/3)}\]

Chance of over-selling

Sell to both

\[v-d\]

\[c+a/2\]

\[c\]
adversive

advantageous

Sell to neither

Sell to C1

Sell to both

Higher Select

Higher DWL

consumer WTP heterogeneity