The Shansby Research Seminar in Marketing

"On oligopoly with positive network effects"

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2:00 pm – 3:30 pm
Monday, March 5, 2018

Room C-210
Haas School of Business
University of California, Berkeley

Abstract
This will be a survey talk about symmetric Cournot oligopolies with positive network effects in two separate cases: (i) there is an industry-wide network and (ii) each firm has its own proprietary network. The paper builds on the classical work by Katz and Shapiro (AER, 1985) on the same topic. We provide minimal conditions for the existence of non-trivial symmetric equilibrium in a general setting. We analyze the viability of such industries, and show that the prospects for successful launch increase with more firms in the market for the first case but decrease for the second case. In terms of the comparative statics effects of entry, we find that the second model has properties that are closer to regular Cournot oligopoly than to the case of single-network industries. Finally, we compare the viability and market performance of oligopolistic industries with compatible and incompatible networks, and show that viability, output and social welfare are higher for the former. However, the comparison of industry price, profits and consumer surplus is ambiguous.