

# Platform Pricing and Foreclosure: Evidence from an Internet Service Provider\*

Zachary Nolan<sup>†</sup>

PRELIMINARY

[Click here for the current version.](#)

This draft: November 1, 2019

## Abstract

This paper studies the joint pricing decisions of internet service providers (ISPs), who sell broadband internet access and pay TV subscriptions. I estimate a model of consumer choice over ISP and third-party online video subscriptions (such as Netflix) using novel household-level data containing online video usage information at the hourly level. I find that the elasticity of demand for internet access is  $-0.99$ , and that TV elasticities are between  $-6.45$  and  $-3.13$ , implying much higher margins for internet than TV. When access to online video is removed from the average household's preferred bundle of subscriptions, willingness-to-pay falls by 20%, or \$38. Next, I use a model of bundle pricing to study the implications of alternative ISP strategies for pricing internet content. I find that foreclosure of online video is not profitable due to (i): the large contribution of online video access to internet valuations and (ii): low ISP margins on TV relative to internet. When given the option to set add-on prices for access to online video, the ISP chooses positive prices, and new surplus is unlocked through substitution from online video to TV.

---

\*I am grateful to my dissertation committee, Allan Collard-Wexler, Carl Mela, James Roberts, Curtis Taylor, and Jonathan Williams, for their guidance and encouragement. I also thank the internet service provider that provided the data used in this paper and acknowledge funding from the NET Institute.

<sup>†</sup>Department of Economics, Duke University. zach.nolan@duke.edu.