Platform Pricing and Foreclosure: Evidence from an Internet Service Provider

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PRELIMINARY

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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.

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