"Essays on Two-Sided Markets"

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"Compatibility and Innovation with Firm Dominance" – November 2007 –
Job Market Paper - Mimeo UC3M

This paper analyzes the effect of firm dominance on incentives to become compatible and how compatibility decisions affect incentives on investments. We find that compatibility is not always beneficial for consumers. Furthermore, in many instances the dominant firm's interests on compatibility are in line with those of users, and are opposite to those of the weak firm, which will always demand more compatibility to be enforced. When this is the case, imposing compatibility would damage consumer surplus and total welfare. We also show that compatibility may harm innovation, particularly for the dominant firm.


We study software platforms for which the total amount that users spend depends on the two-sided pricing strategy of the platform firm, and on the pricing strategy of application developers. When setting prices, developers may be constrained by one of two margins: the demand margin and the competition margin. By analyzing how these margins affect pricing strategies we find some conditions which explain features of the market of operating systems and its differences with the one corresponding to the video consoles. The problem that arises when the platform does not set prices (as an open platform) is considered. We show that policymakers should promote open source in operating systems platforms but not necessarily in video consoles. We also analyze the incentives for a platform to integrate with applications as a function of the extent of substitutability among them and provide a possible explanation for the observed fact of vertical disintegration in these industries.

"Two-Sided Platforms with Endogenous Quality Differentiation" –
September 2006 Working Paper UC3M # 06-12-04

In this paper we construct a simple model of platform price competition with two main novel features. First, platforms endogenously decide the quality of their ‘access service’ and second, each group exhibits preferences not only about the number of agents in the opposite group, but also about their type or quality. Additionally, sellers also care about the type of agents in their own group. Our interest is to examine the set of conditions under which, in spite of the network externalities, more than one platform coexist in equilibrium. We show that when quality is endogenously determined by the choices of agents these platforms could be asymmetric.