The Economics of Internet Markets (Spring 2021)

Professor Charles Hodgson

Short Description

Study of online markets with a focus on ongoing policy debates. Students will learn about the workings of online markets by studying economic models of platform markets, consumer search, and advertising auctions. Students will apply these frameworks to discussions about the regulation of the internet, including net neutrality, privacy, online media bias, and the monopoly power of "big tech". Readings will draw from theoretical and empirical academic studies as well as the popular press.

Course Prerequisites

Intermediate microeconomics and econometrics.

Course Description

Over the past 30 years, an increasing amount of economic activity has moved online. The internet has not only disrupted the structure of existing industries such as music, television, and news media, but has enabled the creation of a host of new markets – for instance platforms which match buyers and sellers (of books, accommodation, transportation etc.), and a massive new market for advertising in which ads are priced by the click.

At the same time, the movement towards online markets has raised questions about the regulation and organization of the economy and society. Is Google’s monopoly power a threat to consumer welfare, even though their product is free? Did Facebook’s acquisition of Instagram benefit or harm consumers? Should internet service providers be required to give equal access to all content? Is competition for our attention on social media leading to increased political polarization?

In this class, we will address these questions by studying internet markets from an industrial organization perspective. The topics will be divided into two broad sections. First, we will think about the incentives faced by buyers, sellers, and platforms, and how these agents interact in market equilibrium. Second, we will discuss the regulation of the internet and connect economic models to ongoing policy discussions about physical investment, net neutrality, media bias, privacy, and antitrust and "big tech".

The goal of the course is to familiarize students with the fundamental economics of online markets relevant to current policy debates, and to develop skills in modelling and economic analysis.
Assignments & Grading

Grading will be based on participation (20%), three problem sets (45%), and a final paper (25%) and presentation (10%).

The problem sets will test your understanding of the theoretical models discussed in class and challenge you to apply these models to new settings. Problem sets may be challenging, so students are welcome to work in groups of up to three.

The final paper should be either a proposal for a research paper or a policy brief that outlines arguments for and against and makes a recommendation about a regulation or policy. Papers should refer to the literature studied in class and apply economic reasoning or modelling. Papers should be around 3,000 words.

A first draft or outline is due before spring break. I will provide feedback on this draft. Papers will be presented by students in the final week (or two) of class.

Attendance Policy

Regular attendance is required to get the most out of the course, and to ensure a good participation grade. I will make allowances for reasonable excuses, subject to my discretion.

Academic Integrity

We will review what plagiarism is, how to identify it, and how to avoid plagiarizing in our own research. We will look at examples of direct and more subtle forms of plagiarism and stress the importance of integrity in academic research.

Topics and Reading List

Readings are listed by topic below. Required readings indicated with *. The classes will follow the order of the topics below. The list is tentative. At each class session, I will assign the required readings for the next week. There is no required reading for the first class.

Topic 1: Overview: The Economics of the Internet.


Topic 3: Advertising and Auctions


Krishna, V. 2010. *Auction Theory*


Topic 4: Generating and Exploiting Data: Consumer Search and Product Recommendations


**Topic 5: The Political Economy of Online Media**


Sunstein, C. 2018. #Republic

**Topic 6: Markets for Data and Privacy**


Athey, S. 2014. Information, Privacy, and the Internet: An Economic Perspective


**Topic 7: Antitrust for the Digital Age? The Regulation of Internet Monopolists**


Whinston, M.D. 2006. *Lectures on Antitrust Economics*


**Topic 8: Net Neutrality and The Physical Internet**


