

Discussion of
“News Aggregators and Competition Among
Newspapers on the Internet”
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Model

2 newspapers, 1 aggregator, continuum consumers.

Newspapers horizontally differentiated (Hotelling).

Taste/“ideology”, \neq different issue coverage.

Set of issues $S = [0, 1]$.

Choose set $s_i \subseteq S$ of issues to cover well, cost $C(\mu(s_i))$.

Consumers single-home.

Model

If type x consumer goes to newspaper 1, gets utility

$$\beta\mu(s_1) - x.$$

Newspaper with market share α_i gets profit

$$\alpha_i[1 + \delta\mu(s_i)] - C(\mu(s_i)).$$

If consumer goes to aggregator:

Benefit: Get good story if issue covered by either newspaper.

Cost: If both newspapers cover issue well, read from random newspaper, not favorite one.

Aggregator gets profit 1 from each read story, newspaper gets profit δ from each good story read through aggregator.

Results

Result 1: Without aggregator, μ_1, μ_2 strategic substitutes.

Intuition: $\mu_1 \uparrow \implies 2\text{'s market share} \downarrow \implies \mu_2 \downarrow$.

Result 2: With aggregator, in equilibrium newspapers cover either same set of issues or disjoint set.

Tradeoff: Same set kills aggregator \implies greater market share.
Disjoint set benefits from readership-expansion effect.

Intuition for bang-bang form: ??

Result 3: δ small \implies newspapers cover same set,
equilibrium similar to no-aggregator.

Intuition: Business-stealing effect dominates.

Result 4: δ large \implies newspapers cover disjoint sets, μ_1, μ_2
strategic complements, quality higher, consumer surplus
higher, social welfare higher, newspaper profits ambiguous.

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Comment: Interpretation

Interpretation in paper: each newspaper covers all issues, some low-quality + some high-quality.

Tradeoff in paper: aggregator has higher quality on average, may not get story from favorite newspaper.

Questionable... New York Times vs. Yahoo News?

Alternative interpretation: “low-quality” = no coverage, “high-quality” = coverage.

Tradeoff: aggregator has broader coverage, may not get story from favorite newspaper.

Not just semantics, as newspaper/aggregator should get profit 0 from not-covered story.

Many results go through with this change, not all:
NYT breaks new story no longer implies NYT market share ↓.

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Comment: Results

Results interesting. Paper could do more to ask how general.

Strategic substitutes vs. complements:

Without aggregator, have \approx contest model

\implies substitutes depends on uniform taste distribution.

With aggregator, $\mu_1 \uparrow \implies$ aggregator's market share \uparrow
(pushes μ_2 up) **and** 2's market share \downarrow (pushes μ_2 down).

In model, first effect dominates. Not clear how general.

Complete coverage by aggregator:

In model, NYT breaks new story \implies NYT market share \downarrow .

In model, if aggregator had cookies (show favorite story when both have coverage), all consumers would go to aggregator.

Summary

- Nice framework for thinking about news aggregators.
- Interesting results
(readership-expansion effect dominates \implies
higher quality, social welfare, ambiguous profits).
- Can build on existing results to get more intuition
(identical vs. disjoint coverage) and address generality
(substitutes vs. complements).