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Advertising and Search Engines. A model of leadership in search advertising

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Abstract

We analyze the role of leadership in a multisided market as search advertising, assuming quantity competition and different entry conditions (with barriers to entry or endogenous entry). The model can be microfounded taking into account network effects, multi-homing on the advertising side and scale in search. If there are barriers to entry and the network effects are strong, there is an incentive for the leader to exploit them and attract more consumers to monopolize advertising. Under barriers to entry, the leading platform has also a strategic incentive to exploit scale in search, to manipulate search results to divert search traffic from other platforms, and to introduce limits to multi-homing, with the aim of expanding its market share and deny scale to competitors.

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