

“Love for Variety”, Outside Option, and Platforms

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Abstract

The thesis discusses the determination of a number of varieties in a market with a platform. It presents a unified framework comprising ‘love for variety’ with heterogeneous buyer preferences, strategic price interactions among the sellers of the varieties of the differentiated product, and an outside option common to all buyers that will be useful in this context of two-sided platforms. The model endogenously determines the extensive and intensive margin of demand and the equilibrium number of varieties in the differentiated product market. In such a setup, complementarity exists between the varieties of a product at the extensive margin of demand, even though they are substitutes of each other. The results add insight into the

competition between ‘brick-and-mortar’ shops and two-sided platforms like e-commerce platforms/shopping malls. The framework is then extended to analyze the behavior of a platform, especially its pricing behavior and its location choice in a linear city.

The thesis shows that a platform/mall increases the number of varieties produced of a differentiated product compared to a ‘no-platform’ equilibrium. The comparative static exercises in the thesis derive results regarding the platform’s efficiency in servicing its clients, sellers’ fixed costs, buyers’ transportation costs, improvements in the outside option of the buyers, and substitutability among varieties of the differentiated product, which have important policy implications.

Keywords: Bertrand-price Competition, Differentiated products, Extensive Margin, ‘Love for variety’, Oligopoly, Platform, Spatial Competition;