Collusion in two-sided markets

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Abstract:

This paper investigates two-sided platforms' incentives to collude in prices. We characterize the most profitable sustainable agreement when platforms collude in the two sides of the market and when they collude on one side only. Under two-sided collusion, prices on both sides are higher than competitive prices, implying that agents on both sides become worse off with respect to the competitive outcome. In addition, the highest sustainable collusive profit decreases with the magnitude of the cross-group externalities if and only if platforms are not sufficiently patient to sustain the monopoly prices. When platforms only collude on one side of the market, it may be the case that the price on one side of the market is below the competitive price (while the price on the other side is above the competitive price). As a result, one-sided collusion may leave agents on one side of the market better off.