



## More ads more revs: A note on media bias in review likelihood<sup>☆</sup>

Ralf Dewenter<sup>a</sup>, Ulrich Heimeshoff<sup>b,\*</sup>

<sup>a</sup> Helmut-Schmidt-University of Hamburg, Holstenhofweg 85, 22043 Hamburg, Germany

<sup>b</sup> DICE, Heinrich-Heine-University of Duesseldorf, Universitaetsstr. 1, 40225 Duesseldorf, Germany



### ARTICLE INFO

#### Article history:

Accepted 2 October 2014

Available online 5 November 2014

#### JEL classification:

L2

L7

L8

#### Keywords:

Media bias

Car reviews

Endogeneity

Panel data

### ABSTRACT

This paper analyzes the existence of a possible media bias by determining the impact of the automobile manufactures' advertisements on the probability that two leading German car magazines review their products. By accounting for a possible endogeneity bias, we find a positive impact of advertising volumes on test probabilities.

© 2014 Elsevier B.V. All rights reserved.

## 1. Introduction

Media bias and diversity of opinion are standard issues, not only in media economics and marketing science, but also in political and communications sciences as well as in journalism. However, both concepts have recently been rediscovered with the emergence of the theory of two-sided markets (see [Rochet and Tirole \(2003\)](#)). Moreover, many countries such as the U.S., the UK, Germany and Australia either already have reformed, or at least intensively discuss reforming competition laws with respect to media mergers. An important indicator when assessing media concentration is also the hazard of an intensifying media bias.

Media bias and limited neutrality can take several shapes. Stories, news or – generally speaking – coverage can be biased due to incorrect reproduction of facts, misreports, the selection of news, or a badly performed search of facts. A media bias therefore always exists when media outlets are (intentionally or otherwise) not objective or not completely honest or neutral with their reporting. There is some anecdotal evidence that some media outlets slant their content intentionally. Recent media reports discuss the well-known magazine *Sports Illustrated* ranking their journalists on the basis of several criteria,

one being whether the content they produce suits the advertising customers' needs (see [Gawker \(2014\)](#)). Depending on their results, the management decides on salaries and on whether to continue contracts. Obviously, a completely unbiased coverage is very unlikely, even if it is produced incidentally. However, only a systematic bias is likely to lead to a permanently inefficiently high information cost and therefore to a sustained deadweight loss. Unsystematic or random biases would turn in different directions and are very likely to be balanced out on average.

A typical and often-cited type of bias is the so-called political bias which is some kind of an ideological bias and not necessarily profit oriented.<sup>1</sup> Of course, if a political bias follows the recipients' preferences, it is also suitable to maximize the profits. A completely different type of profit-oriented bias arises from the interdependence of the recipients and advertising markets. As advertising volumes are frequently one of the most important sources of revenues, newspapers and magazines, for example, can have strong incentives to increase the demand for advertising space in order to increase revenues (and, *ceteris paribus*, also profits). Thus, in the case that coverage can be an adequate instrument to expand the demand for advertising space, e.g., by benevolent reporting, coverage is likely to be biased. From an advertising customer's standpoint, biased coverage can be seen as free of charge advertising. Slanted media coverage is then suitable to increase the demand for advertising customers' products.

<sup>☆</sup> We are grateful to Michael Berlemann, Dirk Czarnitzki, Stephen Martin, an anonymous referee, and the participants of the MSI Brown-Bag Seminar at KU Leuven. We also thank Stephanie Effern, Hagen Niehaus, Julia Rothbauer, and Denise Weber for their excellent research assistance.

\* Corresponding author.

E-mail addresses: [dewenter@hsu-hh.de](mailto:dewenter@hsu-hh.de) (R. Dewenter), [heimeshoff@dice.hhu.de](mailto:heimeshoff@dice.hhu.de) (U. Heimeshoff).

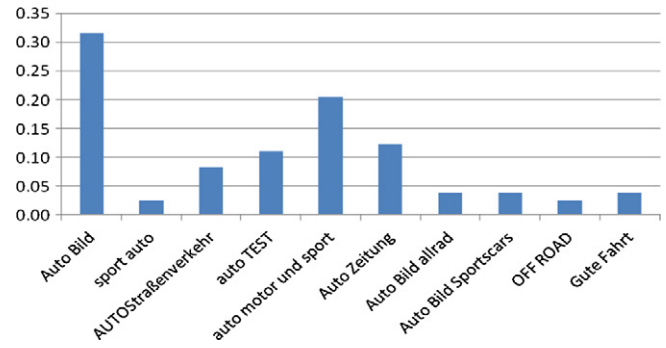
<sup>1</sup> A well-known example of biased reporting is the market for daily newspapers in the UK, where newspapers have clearly stated biases. Other ideological biases are, for example, ethnic or racial biases, class and religious biases.

In ordinary one-sided markets with negligible cost of biased coverage, distorted reporting would always have at least a non-negative effect on the profits. In two-sided markets however, the effect of biased coverage can either be stronger or weaker. As long as the readers like advertising (i.e., network effects from the advertising to the reader market are positive) a media bias will always have stronger effects than in one-sided markets. This is due to the reinforcing impact of two-sided network effects. With higher amounts of advertising, higher demand for copies follows, which in turn leads to stronger demand for advertising volumes. However, if the readers dislike advertising, a trade-off between advertising and circulation exists. An increasing demand for advertising space (and therefore an increasing number of advertisements) would then reduce the demand for copies, and vice versa. The incentives for biased coverage would definitely be lower when the readers are ad-haters.

Studies on media bias have a long tradition in journalism and political science (see, e.g., Glasgow University Media Group (1982); and Herman and Chomsky (1988)). With the invention of the theory of two-sided markets, an increasing number of economic studies dealing with media bias from different perspectives can also be observed. An interesting theoretical paper on political media bias from an economic perspective is Mullainathan and Shleifer (2005). The authors analyze the newspapers' incentives to distort the news coverage under both monopolistic and competitive market structures. It is assumed that, as well as biased content, the readers are also characterized by their subjective beliefs, which they like to see confirmed. Newspapers are then likely to, as Mullainathan & Shleifer put it, slant the stories toward these beliefs. Generally speaking, Mullainathan & Shleifer find that firms facing competitive market structures might have stronger incentives to bias coverage. Opposite results are provided by, e.g., Anderson and McLaren (2012); and Gentzkow and Shapiro (2006a).<sup>2</sup> In contrast to Mullainathan and Shleifer (2005), both papers find that a competition is likely to reduce the media bias if the readers are not able to judge the validity of the coverage.

However, most of the existing studies on media bias deal with a bias toward the preferences of the readership and only a few analyze the incentives to slant content in favor of advertising customers. A recent paper by Gal-Or et al. (2012) adds to the work of Mullainathan and Shleifer (2005) and analyzes media bias when advertising is added as an important source of revenue, as holds for many newspapers and magazines. If newspapers' advertising customers choose to single-home their newspaper advertising budgets, newspapers have incentives to slant their contents to rather extreme positions. However, if advertisers multihome, newspapers choose rather more moderate content. Ellman and Germano (2009) use a model of two-sided markets in order to analyze the impact of market structures on media bias induced by advertising revenues. They find that while advertising influences content in monopolistic markets, competition is likely to lead to unbiased reporting.<sup>3</sup>

Based on the theoretical literature, there is also a growing empirical literature on media bias. Gentzkow and Shapiro (2010), as well as DellaVigna and Kaplan (2007), and George and Waldfogel (2003) analyze the existence of a political media bias from different perspectives. Again only a few deal with the impact of advertising customers' behavior (see Dyck and Zingales (2003); Reuter (2002); and Reuter and Zitzewitz (2006)). Both Reuter (2002); and Reuter and Zitzewitz (2006) test the impact of advertising, on wine ratings and mutual fund recommendations respectively.<sup>4</sup> Reuter (2002); and Reuter and Zitzewitz (2006) find evidence for the existence of biased content. Magazines seem to slant their financial recommendations and wine



Source: PZ-online.de.

Fig. 1. Market shares of car magazines in Germany in 2012. Source: PZ-online.de.

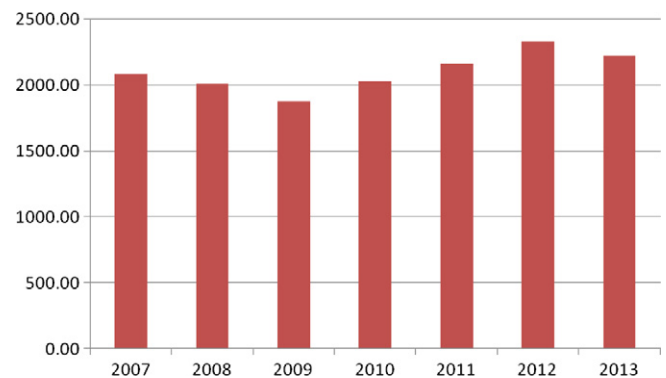
reviews, respectively, toward their biggest advertising customers. Both studies are therefore closely related to our study.

Our study also aims to analyze the existence of a possible media bias provoked by the interrelation of the recipients and advertising markets. Adding to the existing literature, the impact of advertising volumes on the probability of a car manufacturer's products being reviewed is analyzed. Choosing car magazines for the study provides several advantages. Firstly, the data are readily available and can easily be collected from the magazines. Furthermore, the probability of bias in a car being reviewed is far more objective than judgments on a "left-wing/right-wing"-scale which often has to be constructed in studies of media bias analyzing potential distortions of political news.

To identify a possible media bias, we use the data on the two largest German car magazines, Autobild (AB) and Auto, Motor und Sport (AMS). The overall circulation of the magazines covers more than 50% of the relevant market. The magazines also show by far the largest number of advertising volumes in comparison to other competitors. Section 2 gives an overview about the German market for car magazines and the importance of advertising as a source of revenues for these kinds of media outlets. Section 3 presents the data and our empirical strategy. In Section 4 we present our results and discuss some robustness checks. Section 5 concludes the paper and shows some directions for further research.

## 2. The market for car magazines in Germany

The market for car magazines in Germany is characterized by a few large magazines dominating the market. In our discussion, we include all car magazines testing cars and being freely available on the market.



In million Euros, source: Statista (2013a).

Fig. 2. Advertising expenditures of the German automobile sector. In million Euros, source: Statista (2013a).

<sup>2</sup> See also Xiang and Sarvary, 2007, Grønnevet, 2009, and Blasco et al., 2011.

<sup>3</sup> See also Hamilton (2004) for a documentation of media bias.

<sup>4</sup> A similar study can be found in Gambaro and Puglisi, 2010. See Dunham, 2011, for an analysis on political media bias.

Download English Version:

<https://daneshyari.com/en/article/5054069>

Download Persian Version:

<https://daneshyari.com/article/5054069>

[Daneshyari.com](https://daneshyari.com)