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Information and Two-Sided Platform Profits*

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Abstract

We study the effect of different levels of information on two-sided platform profits—under monopoly and competition. One side (developers) is always informed about all prices and therefore forms responsive expectations. In contrast, we allow the other side (users) to be uninformed about prices charged to developers and to hold passive expectations. We show that platforms with more market power (monopoly) prefer facing more informed users. In contrast, platforms with less market power (i.e., facing more intense competition) have the opposite preference: they derive higher profits when users are less informed. The main reason is that price information leads user expectations to be more responsive and therefore amplifies the effect of price reductions. Platforms with more market power benefit because higher responsiveness leads to demand increases, which they are able to capture fully. Competing platforms are affected negatively because more information intensifies price competition.

Keywords: two-sided platforms, information, responsive expectations, passive expectations, wary expectations

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