Accepted Manuscript

Quantity restrictions on advertising, commercial media bias, and welfare

Anna Kerkhof, Johannes Münster

PII: S0047-2727(15)00152-8
DOI: doi: 10.1016/j.jpubeco.2015.09.004
Reference: PUBEC 3612

To appear in: *Journal of Public Economics*

Received date: 23 December 2013
Revised date: 4 September 2015
Accepted date: 8 September 2015

Please cite this article as: Kerkhof, Anna, Münster, Johannes, Quantity restrictions on advertising, commercial media bias, and welfare, *Journal of Public Economics* (2015), doi: 10.1016/j.jpubeco.2015.09.004

Quantity restrictions on advertising, commercial media bias, and welfare*

Anna Kerkhof† Johannes Münster‡

September 4, 2015

Abstract

We study the welfare effect of a quantity restriction on advertising in free-to-air television (and other advertising financed media) in the presence of commercial media bias. Broadcasters face a trade-off between increasing the number of viewers by sending content that is highly valued by viewers, and increasing the price of advertising by choosing advertiser friendly content. A cap on advertising drives the per viewer price of ads up, thus content improves for viewers. Therefore, the cap can be welfare enhancing, even when viewers are not ad averse. Competition among broadcasters makes it more likely that a cap on advertising improves welfare. Thus there is a complementarity between regulation and competition on this market. We also show that a tax on advertising revenues has quite different effects than a cap on advertising quantity.

Key words: media bias, advertising, quantity restriction, taxes, two-sided markets

JEL codes: H23, H25, L13, L51, L82

1 Introduction

It is widely agreed that a free and independent media is important for society and democracy. While the independence of media can be endangered from many directions, recent discussions both in academia and policy circles have shown that commercial media bias is an important concern. Commercial media bias arises out of a conflict of interest between advertisers and audiences over media content. Studies from marketing have shown that advertisers prefer lighter

*We thank two anonymous referees, the editor Sören Blomquist, Martin Barbie, Helmut Bester, Felix Bierbrauer, Fabrizio Germano, Matthew Ellman, Matthias Heinz, Felix Höffler, Kohei Kawamura, Sebastian Kessing, Jonas Löbbing, Frank May, Sebastian Mertesacker, Florian Morath, Verena Muckhoff, Ulrich Münster, Susanne Prantl, Andrea Prat, Markus Reisinger, Klaus Schmidt, participants of seminars in Cologne, Dortmund, and Marburg, participants of the SFB/TR15 Young Researcher Workshop in Mannheim 2014, EARIE 2014, APET 2015, and Workshop on Media Bias (University of Hamburg and Hamburg Media School 2015), for helpful comments and discussion. Errors are our own.

†University of Cologne, Albertus-Magnus Platz, D-50923 Cologne, Germany, e-mail: anna.kerkhof@wiso.uni-koeln.de.

‡University of Cologne, Albertus-Magnus Platz, D-50923 Cologne, Germany, phone: +49 221 4704411, e-mail: johannes.muenster@uni-koeln.de.