Course Outline: Regulating the Internet Economy: Policy Issues and Economic Analysis

By Kai-Uwe Kühn

The course starts with a brief overview of the way in which the internet economy has been “disruptive” to traditional ways of doing business and the regulatory concerns that have resulted – especially in Europe. It then briefly introduces some fundamental economic concepts of complementarity and coordination that are important to understanding innovation processes in the internet economy and the particular business practices that are emerging. These tools are used to analyze the issues of potential dominance of platforms like Google, Amazon, or Facebook that has raised concerns in the policy debates (especially in Europe) on the basis of a number of competition cases.

In the second half of the course we look in more detail at the regulatory issues in platform markets, in particular discussions surrounding the use of data, the role of pricing algorithms for competition, as well as issues for consumer and worker protection that arise from novel business formats in the internet economy.

Day 1:

I. Introduction: What is so disruptive about disruptive innovation?
   a. An overview of the regulatory debate on internet commerce

II. The Economics of Complementarity
   a. Complementarity and the coordination problem
   b. The tension between coordination and innovation
   c. An excursion to organization theory: the interplay between technological innovation and business model innovation
   d. The competitive edge of the platform model

III. Network Effects, Scale, and Scope: Do we need to regulate dominant platforms?
   a. The regulatory discussion in Europe
   b. How do platforms compete?
      i. The e-books case
      ii. Competition between market places
      iii. Are Google and Facebook's competitors?
   c. Do platforms prevent entry
      i. Scale vs. Scope in Entry: the Hotel Bookings Cases
      ii. Innovative vs. Imitative Entry

Day 2:

IV. Big Data: Another source of dominance?
   a. Lots of data vs. useful data sets
   b. How is data used by platforms?
   c. The Learning by Doing analogy
   d. The incentive effects of proprietary data sets
   e. Privacy vs. Market Power: The Facebook case in Germany

V. Pricing Algorithms: Automating Collusion?
   a. Why many antitrust lawyers think algorithms facilitate collusion: monitoring and reaction speed
   b. Collusion and the Coordination Problem
   c. Algorithmic Pricing and Complexity

VI. Consumer and Worker Protection: The Real Frontier for Regulatory Policy in the Internet Economy?
a. Consumer Protection
   i. The Google search case as a consumer protection case
   ii. Information overload:
      1. Biasing Choice through adding irrelevant Information
      2. Biasing Choice through structuring information
   iii. The regulatory challenge: what really helps consumers?

b. Worker protection and the gig economy
   i. “Vertical Disintegration” between firm and employees
   ii. How can precarious work relationships persist?
   iii. How can regulation target labor market failures?

VII. The challenge of forward looking regulation