

User Data and Endogenous Entry in Online Markets

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This paper investigates how the presence of a data broker (DB), who sells consumer information to downstream firms, affects firm entry and consumer surplus in an oligopoly market with horizontally differentiated goods, in which data allow firms to price discriminate. We show that the DB reduces firm entry by choosing the price and quantity of data and by selling data only to a subset of the entering firms. By doing so, the DB maximises firms' willingness to pay for data. Overall, the presence of the DB reduces both downstream competition and consumer surplus. Our results are robust to the introduction of a privacy cost and to alternative selling mechanisms entailing different degrees of DB's bargaining power.