

# ECON 204

Quiz 9: Market Power.

Kevin Hasker

1. (6 Points) Please read and sign the following statement:

I promise that my answers to this test are based on my own work without reference to any notes, books, calculators or other electronic devices. I further promise to neither help other students nor accept help from them.

Name and Surname: \_\_\_\_\_  
Student ID: \_\_\_\_\_  
Signature: \_\_\_\_\_  
\_\_\_\_\_

2. (6 points) There are three reasons to think that computers and the internet will continue to be dominated by natural monopolies. List two of them, explain what they are, and give an example of a firm that appears to be a natural monopoly.

**Solution 1** *As is normal in this sort of situation, if you listed three reasons the first two you wrote down were graded. The three reasons are:*

- (a) *Always decreasing average costs—we are primarily interested in software here, and the costs of software are primarily research and development plus marketing. The marginal cost is all due to bug fixes and defending against computer viruses. These probably also have a decreasing average costs.*  
*Examples of firms that fit this bill are Microsoft Windows, Any computer game, etcetera.*
- (b) *Network externalities—the benefit of using a good is increasing in the number of other users. These goods are like "languages" in that the more people who use them the more you want to. Operating systems are clearly of this sort, but indeed even the interface at a website like Trendyol or Amazon is of this sort. In all of these cases if you have a problem the fact that you are using a popular OS/website means that getting help will be faster.*
- (c) *Economies of the Marketplace—it is only natural for consumers to want to shop where there are the most goods—i.e. suppliers. Likewise suppliers want to go where the most customers are. This means that in theory there is only one market, and with the computer and mail order we can achieve this theoretic reality. Examples of firms that benefit from this are Amazon and Alibaba (markets for everything) and eBay (a market for auctioning goods.)*

3. (8 points) The following question is an essay question, which will be graded by me—not the grader—so let me establish some rules.

- Any writing outside of the box provided will be ignored. Any crossing the edges of the box will result in a point off for each such infraction.
- Messy or tiny handwriting might result in me not reading your answer and giving it a low grade.
- Including irrelevant information might result in a negative score on this question.

Social media is an odd industry. We have reason to believe that it is a natural monopoly to a certain extent, thus government regulation would seem appropriate. Especially since a lot of false information is posted onto these sites. On the other hand, insurrections have been organized using social media. Finally these businesses do not directly collect fees from their customers, instead they rely on collecting information about their customers and having advertisements.

What type of regulation should the government impose on social media? Should there be cases where they take over a social media firm? What do you think should trigger that?

**Solution 2** *I am first going to summarize some of the better ideas in your answers:*

- Several mentioned the idea of only having one account or requiring each account to be linked to some real world identification. This is a promising idea, though (for example) I have both a US passport and a Turkish ID. People will be able to make different accounts linked to different identities still, but it sounds like a solid suggestion.  
Notice this would require legislation, and on an international scope (with perhaps the EU and the US leading). And then many countries will proceed to sell these legal ID's to any and all comers.*
- Another promising idea is to allow for transparency in the information sales market. I.e. you—as a user—should have a right to know what information is being sold to others and who it is being sold to. Perhaps an extreme version of this would be giving you the right to observe what information the company has collected.*
- One of you mentioned the possibility of "community censorship," i.e. people putting a tag on a post that is probably false information. The problem I see with this approach is that a lot of these sub-communities are self-reinforcing. I can imagine some conspiracy theorists putting tags like this on any posts refuting their favorite conspiracy.*
- One of you speculated on a scenario where most political campaigns actually mostly happened on social media. This is already fairly true, and probably will become even more true in the future. This person pointed out that in this case a government takeover of a poorly run site could become a necessity.*

*Overall I don't think you understand the difficulty of monitoring even false information. Because of the 2016 US presidential race I might be more aware than you. Twitter executives talked about how these fake accounts would be created in droves. Investigations of Facebook found multiple pages that were obviously posted from outside of the US but claimed to be created by US citizens. The number of both amateurs and professionals wanting to do this can simply overwhelm the regulators.*

*Something none of you mentioned, but is a significant problem, is the way the algorithm is primed to send you posts you react to. This means they favor posts that either a lot of people love or **hate**. In other words the algorithms themselves are encouraging extremism. People love to react to extreme posts and thus the more extreme your posts the wider they will spread.*

*I do think requiring social media accounts to be linked to real world identification could be a positive requirement. For example, if the United States did this then one could verify when a post was by a US citizen or not—but of course the US does not have a national ID so what it would be linked to would be something of a problem. Twitter, may I remind you, had a system like this in place but the cost was too high for ordinary people to be interested.*

*As well, I think transparency about what information a social media corporation has collected about you could also be worthwhile.*

*But notice these are both problems with the way social media is run. I don't think it is either feasible or desirable for any government to take over social media—and most of you agreed. On the other hand, they do have a great amount of monopoly power—for example Twitter (now called a name appropriate for a porn site) is still one of the most popular social media platforms in the world—despite all of the crazy stuff that Elon Musk has done since taking over.*