

The background consists of several US dollar bills, including a one-dollar bill and a five-dollar bill, with the portrait of George Washington visible. In the foreground, three wooden blocks are arranged horizontally, spelling out the word 'MON'. The first block has 'M' and a subscript '3', the second has 'O' and a subscript '1', and the third has 'N' and a subscript '1'.

# The Rise of Platform Economies

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ECO-251-B2  
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# Introduction

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- Should governments regulate platform companies more strictly?
- Because platform markets tend toward oligopoly due to network effects and economies of scale, stricter government regulation may be necessary to prevent long-run monopoly power.
- Market structure (chapter 10), barriers to entry (chapter 11), and competitive strategy (chapter 13) from *Microeconomics 23e* by McConnell et al.



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# What Are Platform Economies?

- Platform economies are an economic system that allows for the connection between customers and sellers. Some examples include *Uber*, *Airbnb*, and *Amazon*.
- "In New York City, hotel nights sold declined by 1.5 million from 2015 to 2016 while *Airbnb* usage in the city rose significantly ('AirbnbRevenue,' 2023). Furthermore, *Airbnb* saw a spike in revenue from \$2.6 billion in 2017 to \$3.4 billion in 2020 (United States: Ride, 2023)."



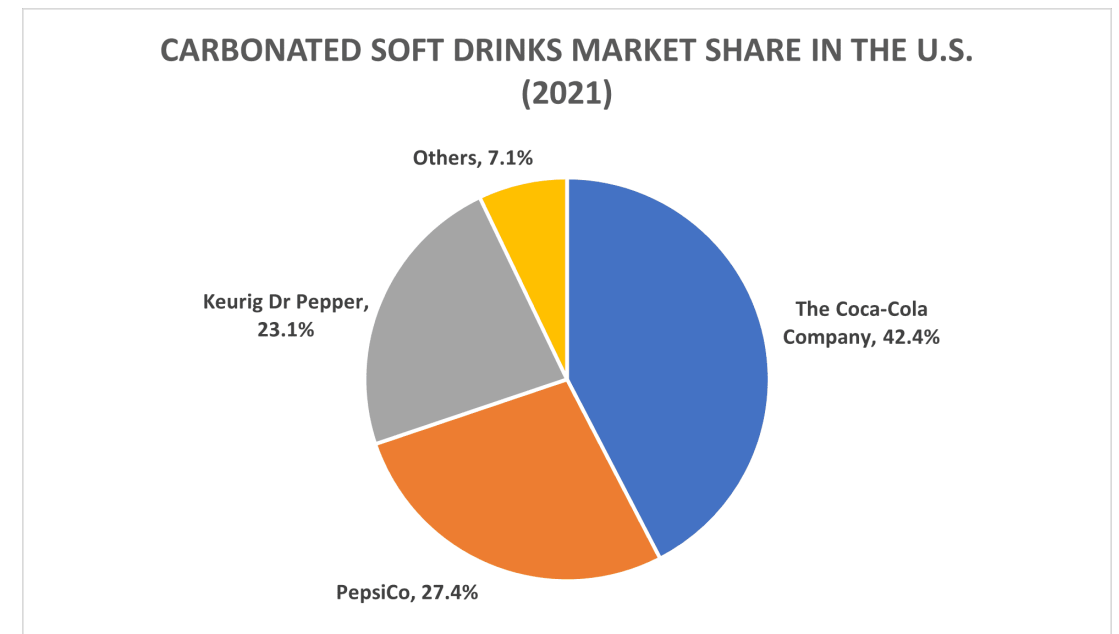
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# Market Structure

- Market structure describes how a market is organized based on number of firms, product differentiation, how easy it is for a firm to enter the market, and how much control a firm has over the price of their product. The four models are: perfect competition, pure monopoly, monopolistic competition, and oligopoly.



- Many digital markets resemble an oligopoly due to the fact that there are few firms that dominate the market.



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# Barriers to Entry

- Barriers to entry are any factors that prohibit firms from entering a particular market.
- If a new social media platform were to start up, it would be hard for that company to compete with existing platforms such as *Instagram* or *TikTok* because of the billions of users already on them (network effects).



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# Competitive Strategy

- Competitive strategy refers to actions a firm makes to maintain or gain market share.



Common strategies in platform markets:

- Acquisitions of competitors

*Meta Platforms* buys out *Instagram* (2012) and *WhatsApp* (2014).

- Predatory pricing

*Uber* set its prices very low in the early stages to expand market shares

- Flywheel effect

*Amazon* integrates *Prime*, streaming, shipping, and shopping to keep consumers within its system.

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# Why Regulation May Be Necessary

- Regulation may be necessary because platform companies often gain significant market power as their user base grows. Due to network effects and economies of scale, a small number of firms dominate the market, making it difficult for smaller companies to compete. Without regulation, these companies may raise prices, limit consumer choice, reduce innovation, or use consumer data in ways that prioritize profit over privacy. Government intervention can help keep fair competition, protect consumers, and prevent leading firms from abusing monopoly power in the long run.



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# References

- Sood, S. (2024, May 20). *EMORY ECONOMICS REVIEW*. EMORY ECONOMICS REVIEW.  
<https://emoryeconomicsreview.org/articles/2024/5/19/the-impact-of-the-rise-of-platform-economies-uber-airbnb-etc>
- McConnell, C.R. et al. (2024)