Competition and Price Discrimination in the Market for Mailing Lists

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Overview

- How does competition affect price discrimination?
  - Theory is ambiguous
  - Existing empirical work focuses on curvature of the price schedule
    - Quantity discounts because of marginal costs (less discrimination) or because of discrimination?
- They look at a novel industry: mailing lists
  - Argue that marginal costs are zero, meaning price differences are due to discrimination not marginal costs
  - Find that competition increases discrimination
  - This finding holds for second and third degree price discrimination
    - PLUS LOTS OF INTERESTING FACTS ABOUT AN INDUSTRY I KNEW LITTLE ABOUT—THOUGH AS MARKETERS, WE SHOULD KNOW IT
- Overall, the paper and analysis are well done
  - The third degree price discrimination results are especially convincing
    - I'd like to see them emphasized more…

Discussion points

1. Why does this matter?
2. What is the correct unit of analysis in looking at price discrimination?
3. Minor points

Why does this matter?

- Currently, the argument is:
  - Price discrimination and competition are key issues in marketing and industrial organization. This paper shows how they interact with each other.
    - In this way, the paper adds to evidence in other industries (Yellow pages, airlines, newspapers) that competition leads to greater price discrimination
    - It currently doesn't provide evidence *against* theory that says competition decreases discrimination, but says, on balance, in this industry, an increase in discrimination dominates
- I think the paper can be bigger. It *CAN* speak to the theory and the question of why (or at least when) competition leads to discrimination.
  - Theory review suggests competition:
    - Increases discrimination because of (i) heterogeneity in cross-elasticities and (ii) the value of products in a given firm are similar
    - Decreases discrimination because of (i) fixed costs and (ii) lots of competition
  - Rather than treating additional specifications as robustness checks, see if there is anything you can learn from them:
    - Do different list sizes have different implications?
      - Why such strong results for larger lists? Does this speak to fixed costs?
    - Do different types of selects have different economic implications?
      - Why don't gender selects work?
    - How is the effect in level of competition nonlinear?
    - 1997 vs. 2002: why the difference

What is the correct unit of analysis?

- What is the right measure of the cost?
  - It is the cost per 1000 or the cost of buying the list?
  - It seems reasonable that the cost of buying the list is the right unit of observation
  - It also has a non-zero marginal cost.
- What happens if the exercise is repeated with total cost rather than cost per 1000?
  - Only this would truly convince me that the second degree price discrimination results are not just a busse-rysman like quantity discount
- The controls for size don't really do this (or at least they do it indirectly). Why not just do this directly?

Minor Comments

- Why not try the diff-in-diff?
  - Why separate regressions for 1997 and 2002?
  - Can the lists be matched across time?
    - Why not firm/list fixed effects?
  - This reduces endogeneity/omitted variables criticisms
- I'd like to see a spline on the competition variable, just to give a deeper sense of where the curvature happens.
  - Just how much competition is needed?
  - When does more competition not mean anything?
- Should the unit of observation be the owner or the list manager?
  - Data discussion implies interchangeable but industry section says not interchangeable at all

Thank you