

## MaCCI Letter 2016

### Research Highlights 2016

#### Konrad Stahl on Market Transparency, Adverse Selection, and Moral Hazard

Anonymous markets such as those established in the internet increase in importance from day to day. In these markets buyers don't know the seller and vice versa. This invites many forms of adverse behavior on both market sides that typically do not emerge when buyers and sellers physically meet. In consequence, anonymous markets could function only improperly or in the extreme not operate at all without channels in which current buyers truthfully convey to potential future buyers their experience with sellers, and vice versa.

MaCCI senior member Konrad Stahl together with his co-authors Tobias Klein and Christian Lambertz use data from eBay, one of the early leading internet market platforms, to show that a seemingly small improvement on the possibility that buyers deposit truthful reports of their experience has a dramatic positive impact on seller performance. Rather than exiting the market, formerly bad sellers exercise substantively more effort in properly describing their offers, and in the way they conduct the transaction.

From this the authors conclude that eBay, the market maker, has sufficient incentives to efficiently organize the market – in particular: to improve on market transparency, and regulatory intervention is not needed. Their study has been published in the *Journal of Political Economy*.

*Tobias Klein, Christian Lambertz and Konrad Stahl (2016). "Market Transparency, Adverse Selection, and Moral Hazard, Journal of Political Economy, 124, 1677-1713*

#### Martin Peitz on Net Neutrality

Net neutrality has led to heated discussions in the public. But what is it all about? According to the most basic net neutrality regulation payments from content providers to internet service providers are prohibited. Regulation may instead or in addition prohibit prioritization of traffic, with or without payments.

In his article "Net Neutrality: A Fast Lane to Understanding the Trade-offs" published in the *Journal of Economic Perspectives*, MaCCI Director Martin Peitz with his co-authors Shane Greenstein (Harvard Business School) and Tommaso Valletti (Imperial College London) analyzes the various economic forces at play when considering net neutrality regulation. The analysis

provides little support for the bold and simplistic proposals that have been put forward by the most vociferous supporters and detractors of net neutrality regulation. Consequences of regulation depend crucially on the precise economic environment. Policy makers are advised to carefully consider dynamic efficiency and distributional consequences and how economic trade-offs play out in their jurisdiction.

*Shane Greenstein, Martin Peitz, and Tommaso Valletti (2016). "Net Neutrality: A Fast Lane to Understanding the Trade-offs", Journal of Economic Perspectives, 30, 127-149.*

#### Interdisciplinary MaCCI Research in Antitrust Law Journal

MaCCI Senior Member Kai Hüscherlath published an interdisciplinary paper – joint work with Eckart Bueren (MPI Hamburg) and Tobias Veith (Rottenburg University of Applied Sciences) – in the *Antitrust Law Journal*. In "Time is Money-But How Much Money is Time? Interest and Inflation in Competition Law Actions for Damages", the authors are the first to provide a comparative law and economics perspective of the topic. They investigate how various legal systems treat interest and inflation as part of competition law actions for damages, and, using real-world data from the lysine cartel, simulate the economic differences, which turn out to be substantial. By comparing and evaluating the regulatory techniques, the paper provides important insights for regulators, litigation practitioners and the ongoing reform discussions in the EU and the US. At the same time, the approach is a first step towards a quantitative comparative law and economics analysis of the law on interest in tort law.

*Bueren, Eckart, Kai Hüscherlath und Tobias Veith (2016), Time is Money – But How Much Money is Time? Interest and Inflation in Competition Law Actions for Damages, Antitrust Law Journal 81 (1), 1101-1166.*

### Important News in 2016

#### Achim Wambach Joins MaCCI

With his inauguration into the office of ZEW president, Achim Wambach is also joining MaCCI as a Senior Member. Mr Wambach, who is also the chairman of the German Monopolies Commission, will particularly promote MaCCI's research activities with respect to market design. Having



studied mathematics and holding a PhD in physics, he is strongly supporting interdisciplinary research.

### MaCCI to Intensify Research on Market Design

The members of the newly created market design research group at ZEW join MaCCI. The group is headed by Vitali Gretschko. MaCCI welcomes the new members and is looking forward to their contributions both in research activities and the organization of events.

### MaCCI Director Thomas Fetzer Joins International Project on Antitrust Law in China, Europe, and the U.S.

International businesses often face a bewildering variety of laws that vary widely from country to country. With fines in the area of antitrust law sometimes approaching or exceeding \$1 billion, global companies are calling for more research into what constitutes good antitrust enforcement practices.



To address these challenges, MaCCI has joined a project led by Penn Law's Center for Technology, Innovation and Competition (CTIC), with Penn Law professors Christopher Yoo and Jonathan Klick, and Wharton professor Joseph Harrington to launch a three-year study comparing antitrust law in China, Europe, and the United States. MaCCI director Professor Thomas Fetzer will examine competition law in the EU. Professor Huang Yong, the Director of the Competition Law Centre of the University of International Business and Economics (UIBE), and Professor Guobin Cui, Director of the Center for Intellectual Property at the Tsinghua University School of Law, will evaluate Chinese anti-monopoly law.

The first year will focus on whether current administrative enforcement practices satisfy the demands of procedural fairness and the rule of law. Financial support for the project is being provided by Google, Microsoft, and Qualcomm.

### MaCCI Senior Member Michelle Sovinsky Receives ERC Grant



The European Research Council (ERC) supports top researchers based in Europe with very generous funding to focus on their research. Receiving an ERC grant is therefore not only a financial achievement but also a great recognition of a researcher's previous work. Michelle Sovinsky, who joined MaCCI in 2015, will use the grant to continue her research on illegal markets. Illegal markets make up a significant part of the world economy, with illicit substances and counterfeit markets reaching an annual value of up to \$300 billion each. This economic activity, however, remains unobserved due to its criminal character, and is therefore not incorporated into the

economic models that policy makers rely on to make their decisions. In her ERC grant application, Michelle Sovinsky proposes to develop novel models that would account for unobserved economic behavior. Her research will focus on three yet under-studied spheres: consumption of illicit drugs, counterfeit production, and illegal counter-competitive actions of legal firms. Professor Sovinsky will propose and test new estimation methods to better analyze each of these three spheres. The research may provide policy makers with useful tools to understand the illicit markets despite their obscure nature.

### Expert Dialogue Regulatory Framework for the Digital Economy Continues

In September 2015, an interdisciplinary team of 7 MaCCI members and 2 external cooperation partners (with MaCCI Directors Thomas Fetzer and Martin Peitz and Heike Schweitzer from FU Berlin as the principal investigators) was selected to provide expert opinions on a regulatory framework for the digital economy for the German Ministry for Economic Affairs and Energy. Multiple policy events take place at the premises of the ministry in Berlin and Bonn. The kickoff event of the expert dialogue series took place on February 25, 2016. Numerous policymakers, researchers, and representatives of different government bodies as well as involved enterprises were participating. MaCCI senior member Irene Bertschek presented a meta-study in which the project team reviews the state of digital markets in Germany. The second main workshop took place on May 30, 2016. MaCCI senior member Thomas Fetzer chaired the discussions of numerous policymakers, researchers, and representatives of different government bodies and involved enterprises. During the talk, theses for the green book (a formal summary of the state of the debate) were presented. On November 4, 2016, an important workshop on the regulation of telecommunication markets took place in Bonn. MaCCI Senior Member Thomas Fetzer provided a first evaluation of suggested regulatory changes and discussed the ongoing legislative process on EU level. The expert dialogue will continue until August 2017. As part of the project, MaCCI Directors Thomas Fetzer and Martin Peitz with their co-author Heike Schweitzer (FU Berlin) released their study in German on digital platforms, "Digitale Plattformen: Bausteine für einen künftigen Ordnungsrahmen", which heavily influenced the green book on the topic released by the German Ministry for Economic Affairs and Energy.

### Upcoming Events (2017)

**March 16-17:** MaCCI Annual Conference – **Papers are to be submitted by December 21**

**May 11-12:** Mannheim Energy Conference – CfP will follow soon

**June 12-16:** Mannheim Summer Institute on Competition Policy

**June 23-24:** ZEW ICT Conference – Papers are to be submitted by March 1

### More Information

For more information on all activities of MaCCI please check <http://www.macci-mannheim.eu>.