
MaCCI Letter 2017

Research Highlights 2017

Konrad Stahl on Product Certification

In many markets, the seller of a good is better informed about its quality, but cannot credibly convey it to the buyer. This gives room for independent certifiers. There is demand for costly certification from both sides of the market. A seller of high quality would like to sell the good at the appropriate price, and the buyer is only willing to pay that price once assured that the good is of high quality. Thus, the question arises who does and who should engage a certifier – the buyer or the seller.

MaCCI senior member Konrad Stahl and his co-author Roland Strausz answer this question within a theoretical framework. *Prima facie* one could argue that certification, if truthful, does remove the informational asymmetry, and thus certification leads to an efficient market outcome no matter who initiates it. The authors show that within the broad context captured by their model, it is the seller who does and who should initiate certification.

The reason is that buyers and sellers differ by the instance under which they initiate certification: While the buyer initiates it when the seller quotes a high price, the seller initiates it when the good is of high quality. In the latter case, the observation that the seller does not initiate certification is informative by itself. This leads to an unequivocal market outcome: Under seller-induced certification, the good is always certified if of high quality, and thus sold a high price – and not certified and sold at a low price if of low quality. This is not the case under buyer-induced certification. The seller of a low-quality good is tempted to offer it at a high price if there is a chance that the buyer buys it without certification. Conversely, a high quality good may not be sold if offered at an appropriate price, because the buyer does not initiate certification for sure. Since market and welfare outcomes coincide, the authors conclude that within the context they analyze, regulatory intervention is not needed. Their study was published in the *Review of Economic Studies*.

Konrad Stahl and Roland Strausz (2017), Certification and Market Transparency, Review of Economic Studies, 84, 1842 – 1868.

Andreas Engert on the Liability of Online Platforms

Online platforms are the champions of the digital economy. Not only competition law and policy are grappling with the new breed of matchmakers. They also raise a broad range of questions for liability under contracts and torts: Can platforms be held accountable for their matching algorithms? What information, if any, do they have to disclose about the working of their algorithms? Are they responsible for the customer reviews and ratings about suppliers that they make available?

MaCCI senior member Andreas Engert tackles these issues in an extensive study for the German-Austrian-Swiss Association of Private Law Professors. The paper lays the doctrinal groundwork for the legal analysis of online platforms by defining their fiduciary duties as brokers. True to the interdisciplinary spirit of MaCCI, Andreas Engert complements legal argument with empirical and theoretical insights from economics.

More specifically, the author dismisses suggestions to hold online platforms liable jointly with suppliers of goods or services, even if the platform exercises a controlling influence on the supplier (as, e.g., in the case of Uber). Platforms in general bear no legal responsibility in relation to market participants for their matching process, including when it is used for price discrimination or to sanction unwanted behavior such as defective goods or late payments. They are, however, required to disclose when listings reflect differential payments by suppliers. In managing the market's reputation mechanism, platforms enjoy much discretion in designing their review and rating systems but are bound to a strictly neutral role. Since platforms are best able to police defamatory statements in their review system, they are also answerable to complaints over customer postings.

Andreas Engert, Digitale Plattformen, Archiv für die civilistische Praxis, forthcoming 2018.

Niklas Dürr on Determinants of Entry

In the aftermath of the 2013 deregulation of the market for interurban buses in Germany, numerous entries by several different providers have been observed sequentially. The market moved from an oligopoly to a duopoly and finally ended up in a monopoly. This raises the question of which firm strategy proved to be the most successful to win the market. In other words, which were the decisive route characteristics for a player's entry and how did this player react on opponents' entry decisions.

Niklas Dürr and his co-author, former MaCCI senior member Kai Hüschelrath, answer this question with an empirical framework. The authors use a comprehensive route-level data set to investigate the determinants of route entry for both providers. Applying survival models, they find that the two major companies (MeinFernbus and FlixBus) show an increased probability to enter populous routes with large shares of young inhabitants.

The two market leaders both avoid entries into routes with low-quality rail connection as well as cities located farther away from the next motorway. Furthermore, both industry leaders largely refrain from entering small- and medium-sized routes in which the other provider is already operating. In large markets, however, they both show an increased entry probability independent of the presence of the other provider. In this respect, the paper documents the first two years of the newly generated market and with its results

obtained, holds the potential to guide further structural changes in transportation economics.

Niklas Dürr and Kai Hüschelrath (forthcoming), Determinants of Entry in the Deregulated German Interurban Bus Industry, Industrial and Corporate Change.

Important News in 2017

New Master Programs on Competition and Regulation

MaCCI is proud to announce the launch of new competition and regulation master programs for lawyers and economists at the University of Mannheim. The new programs started in September 2017. Both programs are interdisciplinary, which means that economists will learn about competition law and lawyers will take courses in competition economics. The Mannheim Competition Policy Forum will be an official part of both programs and enables the students to get in touch with prospective employers. Those include specialized law firms, economic consultancies, and governmental institutions like ministries, the European Commission, competition authorities and regulatory agencies. In addition, MaCCI is also looking forward to recruit future doctoral students from the program.

MaCCI Events for Researchers and Practitioners

In 2017, nine seminar presentations were held in the Mannheim Competition Policy Forum, which is now taking place for the 10th academic year. As in the previous years, MaCCI members organized the MaCCI Annual Conference, the Mannheim Energy Conference, the ZEW/MaCCI Conference on the Economics of Innovation and Patenting, the ZEW Conference on the Economics of Information and Communication Technologies, the MaCCI Law and Economics Conference and the MaCCI Summer Institute. Moreover, MaCCI members discussed internally in the MaCCI Industrial Organization Day and the MaCCI Competition and Regulation Day. In addition, a summer workshop for young researchers on how to design institutions was organized for the first time.

MaCCI Board Members Peitz and Wambach at the Inaugural Meeting of the Work Group Competition Economics at the German Cartel Office

MaCCI members Martin Peitz and Achim Wambach were invited to the new working group on competition economics at the German Cartel Office, Germany's competition authority. In a one-day event, they discussed recent decisions by the German Cartel Office, together with seven other economists from academia, the president of the German Cartel Office Andreas Mundt, and members from the economics group of the Cartel Office headed by chief economist Arno Rasek.

MaCCI Workshop with German Ministry for Economics on the Institutional Design of a Framework for the Digital Economy

In September 2015, a team of 7 MaCCI members and 2 external cooperation partners 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 taking place at the premises of the ministry in Berlin and Bonn were substantial to the two year project. On October 5, 2017, an important workshop on possible institutional designs for the digital economy took place in Berlin. MaCCI senior member Thomas Fetzer organized the workshop and was the moderator for two panel discussions. In a first round Fetzer discussed with Members of the Deutsche Bundestag what priorities the new government should set for its digital agenda. In a second panel discussion Fetzer debated inter alia with the President of the German Cartel Office Andreas Mundt and the President of the German National Regulatory Agency Jochen Homann whether there is a need for a new Digital Agency as suggested by the white paper „Digital Platforms“ by the Federal Ministry.

MaCCI Researchers Part of a new Collaborative Research Center starting January 2018

The Collaborative Research Center (CRC) TR 224, a cooperation of the University of Bonn and the University of Mannheim has been approved by the DFG (German Research Foundation). The CRC Transregio addresses three key societal challenges, including how to promote the equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system. The distinguishing feature of the CRC Transregio is that it views these challenges as inherently interconnected; its goal is to analyze and provide policy proposals that address them.

The DFG funds the CRC over the next four years with more than nine million euros. Funding can be extended by two further funding periods to a total of 12 years.

MaCCI researchers figure prominently in the team of principal investigators of the CRC: Andreas Engert, Harald Fadinger, Jens-Uwe Franck, Volker Nocke, Martin Peitz, Michelle Sovinsky, Konrad Stahl, Emanuele Tarantino, Elu von Thadden, Thomas Tröger, and Ulrich Wagner. Many other MaCCI researchers at the doctoral and postdoctoral level are included in the CRC.

Upcoming Events (2018)

January 25-26: Trade Relations after Brexit: Impetus for the Negotiation Process

March 8-9: MaCCI Annual Conference – **Papers are to be submitted by December 18**

May 14-15: Mannheim Energy Conference

June 11-15: MaCCI Summer Institute on Competition Policy

June 18-19: International Conference on the Dynamics of Entrepreneurship

June 21-22: ZEW Conference on Information and Communication Technologies

Autumn: MaCCI Law and Economics Conference

More Information

For more information on all activities of MaCCI please check www.macci.eu.