

Platform Pricing and Consumer Foresight: The Case of Airports*

by

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Abstract:

We analyze the optimal behavior of a platform providing essential inputs to downstream firms selling a primary and a second complementary good. Final demand is affected by consumer foresight, i.e., consumers may not anticipate the ex post surplus from the secondary good when purchasing the primary good. We first set up a reduced-form platform model and evaluate the effects of consumer foresight on the platform's optimal decisions. Then, we specialize the analysis in the context of airports, which derive revenues from both aeronautical and, increasingly, commercial activities. An airport sets landing fees and, in addition, it chooses the retail market structure by selecting the number of retail concessions to be awarded. We find that, with perfectly myopic consumers, the airport chooses to attract more passengers via low landing fees, and also sets the minimum possible number of retailers in order to increase the concessions' revenues. However, even a very small amount of anticipation of the consumer surplus from retail activities changes significantly the airport's choices: the optimal policy is dependent on the degree of differentiation in the retail market. When consumers instead have perfect foresight, the airport establishes a very competitive retail market. This attracts passengers and it is exploited by the airport by charging higher landing fees, which then constitute the largest share of its profits. Overall, the airport's profits are maximal when consumers have perfect foresight.

Keywords: two-sided markets, platform pricing, one-way demand complementarity, consumer foresight

Bio:

Ricardo Flores-Fillol is Associate Professor at the Department of Economics, University Rovira i Virgili (URV) in Spain. He has participated in many research projects and he is currently the head researcher of a project that includes a team of 18 members. He is the Secretary of the Research Center in Industrial and Public Economics (CREIP) at URV. He belongs to the Scientific Committee of the International Transportation Economics Association (ITEA). He has visited several times the University of California-Irvine, where he has collaborated with Professor Jan K. Brueckner (he has been awarded a Fulbright grant for his latest visit). His research has mainly focused his research on alliances and mergers between airlines, as well as on congestion problems in transport networks. He has presented his work in many international congresses and seminars. He has published in journals such as *European Economic Review*, *International Journal of Industrial Organization*, *Regional Science and Urban Economics*, *Economics Letters*, *Transportation Research Part B*, or *Journal of Transport Economics and Policy*, among others.

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All are welcome!