Final: Econ 106T

Tuesday 15th March, 8:00-11:00am

Instructions: Suppose you are an economic consultant hired by Microsoft to advise them on their business. They are not economists, so make sure to explain all terminology.

Short Questions [40 points; 5 points each]

Question A: What is a platform market? Give an example of a website publisher that is a platform, and one that is not.

Question B: Briefly explain the AdCenter's business model.

Question C: What are the comparative advantages of banner and text ads? Give an example of a product that is better suited to each one.

Question D: What are the homing costs for an advertiser to join AdCenter?

Question E: What is second degree and third degree price discrimination? For each type, provide an example of how Microsoft AdCenter can price discriminate between different advertisers or different publishers.

Question F: Prior to May 2006, Microsoft used Yahoo's ads. Why did it set up AdCenter?

Question G: What is the difference between horizontal and vertical differentiation? Give two examples of how Microsoft might (i) horizontally and (ii) vertically differentiate them self from Google. [Note: please don't use the example in Question H]

Question H: Ads on Google are 70 characters in length. AdCenter is considering copying Google's format or allowing 125 character strings. What is the main advantage/disadvantage of each strategy?

Long Questions [60 points; 20 points each]

Question 1: It is convenient to think of AdCenter as a platform market with three sides: searchers, advertisers, and website publishers. Explain the same-side and cross-side network effects between these sides. Does Google's large share in the consumer search market give it an advantage over Microsoft?

Question 2: In the long run, what forces affect the market structure of the Ad placement industry? Will the long run market structure be more or less concentrated than that of the consumer search industry?

Question 3: Given the current disadvantage Microsoft has in the Ad placement market, discuss their strategies for mobilization.

Extra Space (for Notes or Rough Work)