The Steering Incentives of Gatekeepers in the Telecommunications Industry

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Date:2022-08-01

Keyword:NA

Url:[click here](https://www.nber.org/papers/w30399)

Attachment:[click here](https://www.nber.org/system/files/working_papers/w30399/w30399.pdf)

From:NEBR-working\_paper

We study trade-offs faced by multiple-system operators (MSOs), the gatekeepers in the provision of internet service, when setting prices and quality for internet access and TV service. In response to improvements in over-the-top video (OTT), MSOs choose between accommodating OTT to share in the surplus it provides consumers, or steering consumers towards TV. We augment the standard mixed bundling model to show that in some cases MSOs have incentives to steer consumers towards TV, but that these incentives vary with the available pricing tools. We then estimate the distribution of model parameters using household panel data on subscription choices and internet usage. Our estimates imply that if MSOs can set different prices for different internet content, under many cost circumstances MSOs discount the OTT usage price. Furthermore, we find that the ability to charge prices based on internet usage strengthens the MSOs' incentive to improve OTT quality.