RESEARCH STATEMENT

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My research interests lie in the fields of Industrial Organization, Applied Microeconomics, and Game Theory. I am particularly interested in using game theoretical tools to model, explain, and predict the strategic behavior of firms that operate and compete in network industries, mainly the telecommunications industry. My research aims to generate a combination of novel theoretical predictions that are empirically testable using consumer microdata and data drawn at the firm or industry level.

My job market paper, “Competition with endogenous and exogenous switching costs," introduces a general theoretical framework for dynamic competition under the presence of consumer heterogeneity and two types of switching costs (SC): endogenous costs in the form of switching fees, which are set by providers, and exogenous individual SC, specific to consumers. I propose a two-period game with two providers competing in a consumer subscription market, which also allows introductory offers, and in an extended version, takes into account investment in marketing by providers. I show that there are symmetric subgame perfect Nash equilibria in pure strategies, in which the equilibrium switching fees and prices are not uniquely determined, but they lead to unique multi-period payoffs in terms of providers' profits and consumer surplus. These total payoffs are unaffected by the ability to set switching fees, but are directly affected by exogenous SC. Switching fees intensify intertemporal price variation and, therefore, affect intertemporal payoffs by accentuating the trade-off between present and future benefits, leaving multi-period payoffs unaffected. This result is consistent with the observation of some telecom providers that dismiss the use of Early Termination Fees, and has important policy implications; it suggests that effective regulatory policies should reduce exogenous SC (by implementing number portability, standardization or compatibility policies for example) rather than eliminate or regulate any switching fee.

My model predicts that second period prices are increasing in exogenous SC, and consumer surplus decreases with them; a reduction of exogenous SC would lead to lower prices, and to higher demand for services. I empirically test such prediction in the Peruvian mobile telecommunications market, in which a major reform that reduced individual exogenous SC (unlocked handset policy) was implemented in early 2015. Using longitudinal consumer survey data and firm level data I found evidence that the unlocked handset policy generated a 33% increase in the demand of mobile services of consumers who switched and, moreover, I found that any change of current consumers' status (consumption plan or provider) would induce a 28% increase in their demand for the service.

I am ultimately interested in analyzing and understanding the possible sources of consumer inertia and market power. In “Milking the milkers: a study on buyer power in the dairy market of Peru," co-authored with Jose Tavera (Pontificia Universidad Catolica del Peru), we analyzed the dairy market and tested the existence of conditions that facilitates the exercise of buyer power. We used aggregated data and found evidence of inelastic supply and high market concentration, which is consistent with the existence of buyer power in the industry. This study aims to improve policy recommendations regarding antitrust legislation.

My future research agenda includes working in richer game theoretical models that consider two-part tariffs and network effects, which adds additional dimension and complexity to the problem of SC, thereby enriching our understanding of network industries. On the empirical spectrum, I intend to use my theoretical model of SC to explain the dynamics we observe in other markets, including health insurance and banking. I believe an integrated analysis that combines theoretical work and empirical analysis using computational techniques is essential to uncover and understand complex market forces in network and platform industries.