Azzali, Denicolò & Polo: „Dominant Ecosystems and Innovation Slowdown“

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Much to like about this paper

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- Timely topic
- Central question:
  Are big tech aquisitions and innovation-for-buyout good or bad in the short-run, and in the long run?
- Basic tension:
  In the short run, fierce competition among tech firms for start-up innovation stimulate innovation incentives by start-ups,
  but in the long-run, growing market power of aquirer leads to less competition for start-up innovation and hence lower innovation incentives
- Very elegant, parsimonious and clear model
- Clear predictions

Comments (1/2)

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- Very clear result on i) lower innovation in the second period and ii) lower welfare with stricter merger policy, but what are the **boundary conditions**?
  - Results depend in part on ability to extract rent directly from consumers (conflicting payoffs environment in the sense of de Corniere & Taylor, RAND, 2019) with fixed homogenous consumer base.
    - What if rent extraction is less direct (through ads, two-sided markets)?
    - Or if in congruent payoffs environment?
    - Or firm cares about market size (network effects, data generation)?
  - The „loser“ firm is a bit helpless in the second stage. What if it could develop an own innovation at some cost (possibly with one period delay) and must not rely on bidding for access to third-party innovation?
  - Some possible equilibria are assumed away by restricting values of innovation? What type of equilbria would emerge there?
  - Start-up lives only one period. What if first period start-up can become competitor in second period? -> Changes first period outside option.

- Main effect comes through less aggressive bidding in second stage. Anticipating this, second period start-up innovates less. Could losing firm be better off by **subsidizing second period innovation**?

- Policy advice (stricter merger policy makes it worse) hinges on **lack of third firm**. In second period only losing firm is left and faces no competition when bidding for innovation.

Comments (2/2)

- Paper leaves reader a bit puzzled on policy advice. Are there other policy options that can be explored? What would be good advice?
  - Govt. subsidies for R&D in second period?
  - Sharing value (e.g. through data access, tax)?
  - Price caps (for consumers and/or acquisitions)? Limited budgets for firms across both periods?

- Model is already very clean, but can it be even cleaner?
  - Do we need third party innovators (start-ups) for the mechanism? What if firms invest directly in innovation themselves? Probably yields similar results
  - Why the mixed bundling? Why is being able tc $(i = l \; if \; \omega_1^j = 0)$ n separately important for the mechanism?
  - Reminds me very much of competition with complementary aftermarkets. E.g, subsidizing handsets to sell mobile subscriptions. How is this qualitaively different?

- Minor
  - Notation a bit confusing. Could be simplified:
  - „Primary products“ and their marginal costs a bit unclear.

Thank You!

Discussion…

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