

SHORT TERM SCIENTIFIC MISSION (STSM) SCIENTIFIC REPORT

This report is submitted for approval by the STSM applicant to the STSM coordinator

Action number: CA 16228

STSM title: STSM in the University of Cyprus

STSM start and end date: 01/10/2018 to 29/12/2018

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PURPOSE OF THE STSM:

Bundling is a strategy of grouping two or more independent products and selling them at a discount relative to the sum of the distinct product prices. Bundle products are observed in various imperfectly competitive markets and often attract the attention of antitrust authorities. One well-known example is the decision of Microsoft to bundle internet explorer “free” with their Windows operating system. This strategy facilitated Microsoft’s dominance over internet search browsers. Many industries are engaged in the practice, like telecommunications services, information, health care, etc.

The current STSM in the University of Cyprus initiated a new joint research project on the theory of bundling products, in collaboration with Dr. Nicholas Ziros. Our aim was to investigate, in a game-theoretic setup, the incentives for bundling strategies through a manufacturer – retailer distribution channel. We focused our interest on the pricing schemes that bundling entails and on how it affects consumer’s welfare.

DESCRIPTION OF WORK CARRIED OUT DURING THE STSMS

During my short term stay in Cyprus, in cooperation with Dr. Nicholas Ziros, we took the initial steps in advancing a game-theoretic analysis of bundling strategies through a manufacturer – retailer distribution channel. We incorporated a general framework of consumer demand for the component products of the bundle and we developed a model that identifies conditions under which engaging in bundling is profitable for both manufacturers and retailer. Moreover, we introduced a novel link between the theory of bundling products and intertemporal consistency problems. Mainly, we investigated the pricing schemes that emerge through bundling strategies with and without commitment mechanisms and we analyzed their consequences on competition and consumer’s welfare.

Additionally, my STSM in the University of Cyprus gave me the opportunity to get involved in various research seminars and workshops that took place in the Department of Economics and interact with faculty, students and guest researchers.

DESCRIPTION OF THE MAIN RESULTS OBTAINED

This STSM led us in taking the initial steps for the construction of a game – theoretic model that describes the conditions under which bundling strategies emerge in a manufacturer – retailer distribution channel. We also identified intertemporal consistency problems and we focused on their impact on the agents' pricing schemes and on consumer welfare. Our preliminary results are promising concerning their implications on various antitrust and consumer protection policies.

FUTURE COLLABORATIONS (if applicable)

Apart from the game-theoretic analysis of bundling through a manufacturer – retailer distribution channel, we considered several extensions of our analysis as future research projects. One of them is the possibility of testing the validity of our results in an experimental setting.

Moreover, the fact that during my visit in Cyprus, I had the opportunity to interact with many prominent researchers, receive feedback about my research and discuss about various interesting questions that might lead to future collaborations.