

WWZ Research Seminar
Faculty of Business and Economics, University of Basel

Tuesday, November 29, 2022, 12:30, S15, HG, WWZ and Zoom

Prof. Dr. Eyal Winter,
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“Winners and Losers in Priority Services”
(joint with Alex Gershkov, Hebrew U and Surrey)

Abstract

We analyze the implications of introducing priority service on consumers' welfare. In monopoly markets, introducing priority service can often decrease the consumers' surplus. This negative effect exists despite an increase in efficiency gains. In other words, the monopolist extracts from consumers a total payment higher than the total efficiency gain generated by the service and hence leaves consumers worse off than when no priority is offered at all.

In duopoly markets with homogeneous customers the price competition over priority service is fully erected, i.e., the equilibrium price and customers' welfare coincide with the monopoly outcome where this monopolist faces half of the market. With heterogeneous customers as well priority can reduce the aggregated consumers' welfare. On the other hand priority service can increase consumers' surplus if it expands the consumption's coverage i.e., when it introduces new consumers who would not otherwise purchase the service.

Our conclusion is that in many markets in which it is offered, priority service erects barriers to competition that are embedded in the nature of the provided service, but that it can increase the total welfare of consumers if it substantially expands consumption.

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