

Department of Economics
2024-2025
Seminar Series



Monday, May 5, 2025
12:30 PM-1:50 PM
SBS, Room N603

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App Platform Model

Abstract: We model a software application platform where apps are complements, which differ in their quality and consumers differ in their benefit from app quality. The platform sells devices to consumers and collects a percentage commission on in-app purchases. App developers choose to develop an app (incurring a fixed cost) and their in-app purchase price. Consumers decide to buy a device and how much to purchase from each app. We characterize the platform's equilibrium allocations and fees implementing them. The platform sets excessive fees on both sides, distorting consumer and app surpluses. A cap regulation on commissions increases app entry and app surplus, but lowers consumer participation and can harm consumers. Allowing apps to use a third-party payment channel effectively mirrors a commission cap, and so can harm consumers while benefiting apps. If the platform introduces its own apps replacing some high-quality apps, it sets a lower commission and higher device fee resulting in lower consumer participation, more app entry and higher profits for the remaining apps. We also study the implications of different app financing models (ad-financed, subscription-based). With Özlem Bedre Defolie.

All in-person seminars will be held in the Social and Behavioral Sciences Building, Room N603. For additional information, contact the seminar organizers: Profs. Chang Liu & Eva Carceles-Poveda. Visit our webpage for additional information: stonybrook.edu/economics.

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