

The Economics of Platforms in a Walrasian Framework

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Abstract We present a tractable model of platform competition in a general equilibrium setting. We endogenize the size, number, and type of each platform, while allowing for different user types in utility and impact on platform costs. The model is applicable to the recent growth in digital currency platforms. The economy is Pareto efficient because platforms internalize the network effects of adding more or different types of users by offering type-specific contracts that state both the number and composition of platform users. Using the Walrasian equilibrium concept, the sum of type-specific fees paid cover platform costs. Given the Pareto efficiency of our environment, we argue against the presumption that platforms with externalities need be regulated.

JEL codes: D50, D62

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