

Digital Media Mergers: Theory and Application to Facebook-Instagram

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Abstract

We present a new model of competition and mergers between two-sided media platforms with targeted advertising. The model includes familiar forces describing how platforms set ad load given user-side and advertiser-side substitution patterns, but adds new insights around how user overlap and preference heterogeneity determine how competing platforms set ad load. We apply the model to evaluate the proposed separation of Facebook and Instagram.

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