

Abstract: Hybrid Platform Model

We provide a canonical and tractable model of a trading platform which controls the product variety it hosts and product prices by charging a percentage fee on sellers and choosing to sell its own product (hybrid mode). We capture two-sided network effects by endogenizing seller participation through an aggregate manipulated by the platform's fee and buyer participation via intrinsic participation costs to discover their tastes for products. We use a mixed market demand system of differentiated products to capture interactions between monopolistically competitive sellers and a sizeable platform product. The platform prefers to steer consumers towards its own product by charging commissions on rival third-party sellers (insidious steering). Steering incentives are higher better the platform product is in its quality or cost. Banning hybrid mode benefits consumers if the ban leads to pure marketplace. The hybrid platform debases third-party products if its own product is strong enough.