Regulating Advertising Time: Evidence from French TV

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Abstract:
This paper aims at understanding the welfare implications of the widespread regulation on TV advertising time. To my knowledge, this is the first paper which investigates this issue using structural econometric models in a two-sided market framework. The paper exploits a novel dataset of per hour data on 12 broadcast TV channels in France during one year (2014). I first estimate the demand of TV viewers and of advertisers, which allows me to account for the two-sidedness of the market in the supply decision of TV stations. I show in this paper how to identify the shadow prices of regulation constraints from the supply function of firms. Finally, I conduct two counterfactual experiments to calibrate the welfare effects of the regulation. My results suggest that the regulation protects welfare of TV viewers, while its impact on the industry's profit can be either positive or negative, depending on the concentration level of the market. Given the two-sided market structure of the broadcast TV industry, regulating advertising time is unnecessary on a competitive market. However, if collusion on advertising provision among TV broadcasters is possible, the regulation can improve upto 5.75% of consumer surplus, but decrease until 4.8% of the industry's profit.