

Deceptive products on platforms *

RÓBERT SOMOGYI

Budapest University of Technology and Economics
Institute of Economics, Centre for Economic and Regional
Studies

On many online platforms, sellers offer products with additional fees and features. Platforms often deliberately shroud these fees from consumers. Examples are shipping fees, luggage fees on flight-aggregator websites, or fees for room service and other upgrades on hotel-booking platforms. We explore the incentives of two-sided platforms to disclose additional fees and design a transparent marketplace when consumers might naively ignore shrouded additional fees. First, we find that platforms have stronger incentives to shroud additional fees than sellers in the absence of platforms. This result holds for monopoly platforms and in some competitive settings. Second, competition might induce platforms to regulate additional fees, which benefits consumers. We discuss connections to frequent practices like drip pricing, and platforms like Amazon or eBay regulating shipping fees.

*Based on a joint work with Johannes Johnen.