

ECON 321, Class 19: BP Chapter 20, Network Effects

1. Read Section 20.1. Pay particular attention to indirect and direct network effects. What is an example of an app or website or other network that you can think of? Are its network effects direct or indirect? No fair picking some major network that everyone has heard of – what's something pretty obscure that you can find out about?!
2. Skim Section 20.2.
3. Skim Section 20.3.1.
4. Read Section 20.3.2 carefully. There is a somewhat simpler version of this model in Exercise 20.3. Do that exercise, setting $r = 60$, $v = 1$, and assume $\tau > 1$.

The second stage of the game involves finding the indifferent consumer along the Hotelling line to find the demand.

The first stage of the game involves the two firms playing Bertrand in prices anticipating the demand that will materialize in stage 2.