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# Proprietary vs. Open Two-Sided Platforms and Social Efficiency

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## Abstract

This paper identifies a fundamental economic welfare tradeoff between two-sided open platforms and two-sided proprietary (closed) platforms connecting consumers and producers. Proprietary platforms create two-sided deadweight losses through monopoly pricing but at the same time, precisely because they set prices in order to maximize profits, they partially internalize two-sided positive indirect network effects and direct competitive effects on the producer side. We show that this can sometimes make proprietary platforms more socially desirable than open platforms, which runs against the common intuition that open platforms are more efficient. By the same token, inter-platform competition may also turn out to be socially undesirable because it may prevent platforms from sufficiently internalizing indirect externalities and direct intra-platform competitive effects.

**Keywords:** [Two-Sided Markets](#); [platforms](#); [indirect network effects](#); [product variety](#); [social efficiency](#); [Two-Sided Platforms](#); [Network Effects](#); [Welfare or Wellbeing](#);

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