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The economics of markets and platforms

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Abstract

Advances in the study of both markets and platforms contribute to economics. Platforms are typically digital markets, although platforms can designate markets generally. So, the economics of markets and the economics of platforms are one and the same. Platforms show the critical role of intermediaries in endogenous price adjustment and market clearing. The platform model remedies problems with general equilibrium analysis by combining and extending the basic Walrasian and Marshallian market models. The analysis of platforms provides explanations for the bid-ask spread, including market power, search costs, matching costs, adverse selection, and moral hazard. The study of platforms demonstrates the importance of participation and coordination in the formation of markets. The discussion emphasizes that platforms have significant implications for the theory of the firm. The analysis further considers how platforms affect innovation and entrepreneurship.

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