Advertising Prices in Equilibrium: Theory and Evidence

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Abstract

Existing theories of media competition imply that advertisers will pay a lower price in equilibrium to reach consumers who multi-home. We generalize and extend this theoretical result and test it using data from television and social media advertising. We find that television outlets whose viewers watch more television charge a lower price per viewer to advertisers. This finding helps rationalize well-known stylized facts such as a premium for younger and more male audiences on television. Also consistent with the theory, we show that social media advertising markets feature a premium for older audiences. A quantitative version of our model whose only free parameter is a scale normalization can explain 44 percent of the variation in price per impression across owners of television networks.

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