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Virtual Competition

The Promise and Perils of the Algorithm-Driven Economy

Ariel Ezrachi and Maurice E. Stucke

“Ezrachi and Stucke provide a compelling analysis challenging the orthodoxy that modern technology empowers consumers. Their findings will send a shiver down the spine of consumers, businesses, public policy makers and anyone working in the competition field.”

—Alan Giles, Saïd Business School, University of Oxford

Shoppers with Internet access and a bargain-hunting impulse can find a universe of products at their fingertips. In this thought-provoking exposé, Ariel Ezrachi and Maurice Stucke invite us to take a harder look at today’s app-assisted paradise of digital shopping. While consumers reap many benefits from online purchasing, the sophisticated algorithms and data-crunching that make browsing so convenient are also changing the nature of market competition, and not always for the better.

Computers colluding is one danger. Although long-standing laws prevent companies from fixing prices, data-driven algorithms can now quickly monitor competitors’ prices and adjust their own prices accordingly. So what is seemingly beneficial—increased price transparency—ironically can end up harming consumers. A second danger is behavioral discrimination. Here, companies track and profile consumers to get them to buy goods at the highest price they are willing to pay. The rise of super-platforms and their “frenemy” relationship with independent app developers raises a third danger. By controlling key platforms (such as the operating system of smartphones), data-driven monopolies dictate the flow of personal data and determine who gets to exploit potential buyers.

Virtual Competition raises timely questions. To what extent does the “invisible hand” still hold sway? In markets continually manipulated by bots and algorithms, is competitive pricing an illusion? Can our current laws protect consumers? The changing market reality is already shifting power into the hands of the few. Ezrachi and Stucke explore the resulting risks to competition, our democratic ideals, and our economic and overall well-being.

Ariel Ezrachi is Slaughter and May Professor of Competition Law at the University of Oxford. **Maurice E. Stucke** is Professor of Law at the University of Tennessee and co-founder of The Konkurrenz Group.