

# TIME SCARCITY AND THE MARKET FOR NEWS\*

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April 3, 2020

## Abstract

We develop a theory of news coverage in environments of information abundance. Time-constrained consumers browse through news items across competing outlets. They choose which outlets to access and which stories to read or skip, thus indirectly deciding how much time to spend on a given outlet. Firms decide on rankings of news items that maximize their profits. We show that even when readers (or television viewers) and firms are rational and unbiased, they spend more time on the news than they would like and not necessarily on the topics they prefer. In particular, relevant news items may be crowded out. We then study how reader-efficient standards can be restored, and derive implications on diverse aspects of new and traditional media. These include tabloidization and polarization of the news, and other aspects relevant for the political economy of the media, including political knowledge gaps and voter turnout.

**Keywords:** Media markets; ranking news items; time-constrained consumers; digital media; tabloidization of news; political knowledge gaps.

*JEL Classification:* D43; H44; L13; L82; L86.

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\*We thank Simon Anderson, Cédric Argenton, Ghazala Azmat, Matthew Ellman, Rosa Ferrer, Lisa George, Sergei Guriev, Andrés Hervas-Dráne, Christiaan Hogendorn, Doh-Shin Jeon, Niko Matouschek, Martin Peitz, Helena Perrone, Maria Petrova, Andrew Rhodes, Francesco Sobbrío, Joel Waldfogel, and Pai-Ling Yin for insightful comments and conversations as well as the editor and the anonymous referees, and the participants in seminars and conferences in Barcelona, Copenhagen, Florence, Hamburg, Marseille, Moscow, Munich, Rome, Santander, Tilburg and Toulouse. Germano thanks AMSE-IMÉRA at Université Aix-Marseille for hospitality. The authors acknowledge financial support from the Fundación BBVA grant “Innovación e Información en la Economía Digital” and from the Spanish Ministry of Economy and Competitiveness under project grants ECO2014-56154-P (Alaoui) and ECO2017-89240-P (Germano), as well as through the Severo Ochoa Program for Centers of Excellence in R&D, grant SEV-2015-0563. All mistakes are our own.

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# 1 Introduction

While there is a virtually unlimited amount of information generated and made available daily, people have neither the time nor the capacity to consume or process it all. A crucial role of the media consists of filtering this information and presenting the most relevant news to the public. This role has become increasingly important amidst dramatic technological advances of recent years.<sup>1</sup> Yet, it remains largely unclear how these changes have impacted news coverage and, ultimately, whether readers are better informed, as citizens and voters, as a result.<sup>2</sup>

A central theme of this paper is that there are time costs associated with processing and accessing the news that depend on the media type and platform. Although these costs are typically small and seemingly irrelevant, they can have a significant impact on how news items are ranked. Our main results show that even when readers (or television viewers) and firms are rational and unbiased, readers spend more time on the news than they would like and not necessarily on the topics they prefer.<sup>3</sup> While this need not have a large effect on readers' utility levels, it can seriously alter the composition of stories read. The paper thus highlights a potential fragility in the choice of stories and topics that the press covers more prominently. Given readers' time constraints, news items that are relevant to them may be systematically crowded out as a result.

Three features characterize our approach: *(i)* media firms essentially provide an *ordering* of the stories of the day, *(ii)* consumers are *time-constrained* when consuming the news, and *(iii)* they access the news through given *menus of choices* that allow them to read and skip stories or switch and search outlets. These three features provide a unifying lens through which to study digital and traditional media. From these, we derive a minimal model that allows us to study news consumption and production, from print and online news to radio and television. The framework can also be used to study social media, public media, advertising and search.

We consider a market for news with profit-maximizing media firms facing utility-maximizing readers or television viewers. On the demand side, consumers read in a sequential manner, taking into account their time constraints. While they rely on the media outlets' rankings of news items, they browse through the news and decide whether to read or skip articles, to switch to other media outlets or to stop reading the news altogether. In particular, they can read multiple stories and decide how much time to spend on any of the given outlets. Whether the decisions on news consumption are made at a conscious or a subconscious level, the key aspect is that reading and skipping articles and navigating across websites are all costly in time and cognition. These costs may vary with the media platform; for instance, skipping a story in an online newspaper is less costly than skipping one

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<sup>1</sup>According to Eric Schmidt, the former chairman of *Google*, “we now generate the same amount of information in two days as we did between the dawn of civilization through 2003,” (Pariser, 2011). A recent survey by the Pew Research Center indicates that a majority (54%) of Americans consider that “journalists are more important in today’s news environment, because they help make sense of all the information that is available,” (Pew Research Center, 2013).

<sup>2</sup>Strömberg (2015) surveys the interplay of media and politics; Pew Research Center (2007), Prior (2007), Williams and Delli Carpini (2011) and Patterson (2013) study democracy and public knowledge in a changing media environment.

<sup>3</sup>We refer to the consumers throughout the paper as readers, but our approach can also be seen, for the most part, as applying to viewers and listeners as well.

on television, and our model can be applied to either. Readers can also switch from one media outlet to another or possibly return to read articles that they previously skipped. An individual’s utility from reading an article depends on its “newsworthiness,” which is a function of its relevance and entertainment value, and may depend on what they have previously read. We assume, throughout the paper, that consumers are rational, and that they do not misjudge their appraisal of content or underestimate their willingness to read.

On the supply side, media firms decide on a strategy for presenting the stories of the day. These outlets cannot use deceit, slant an article or make it seem more or less interesting than it actually is. They simply decide on the order in which to present the stories. We refer to their rankings, which they commit to ex-ante, as their editorial policy. In the baseline model, media firms maximize profits, which corresponds to maximizing readership; they are unbiased, and they do not draw more revenue from one subject or another. We also consider alternative objective functions for which the firms do not maximize pure readership alone.

We show that, when skipping costs are not too small, despite their lack of bias, media firms might not rank stories in the reader-optimal way. Equilibrium rankings may lead consumers to read more stories than they would like (*extra stories* are read), and these stories may cover different topics from those that readers want (some stories are *crowded out*). The results are robust and follow from a fundamental misalignment between the consumers’ preferences over the stories they wish to read and the firms’ incentives to maximize stories read (or, for online media, “page views”). They hold even when there is a zero cost of switching from one outlet to another and even when readers have no uncertainty over the rankings and newsworthiness of the stories. Moreover, they do not rely on any kind of reader manipulation or deception, since readers are fully aware of the firms’ preferences and editorial policies.

Somewhat surprisingly, this entails that small changes in time costs of skipping stories or switching outlets can have a large impact on the rankings provided by the outlets and, consequently, on the stories read. Intuitively, readers typically do not have strong enough incentives to seek their most preferred ranking. That is, while the stories read can be on entirely different subjects, direct reader utility itself is *not* significantly changed. But, since this may lead to a large difference in the topics over which readers are informed, the political economics consequences may themselves be important.

Next, we study whether allowing firms to charge a fee to access news content can restore reader-efficiency. We show that reader-efficient rankings can be achieved under some conditions, but only when the fees that can be obtained from readers are not too small compared to the ones that can be obtained from advertisers.<sup>4</sup>

Finally, we study a political economy environment, where newsworthiness can be linked to informativeness, and explore the informational consequences of readers’ time constraints. We observe that without any bias, consumers may be uninformed on topics that they consider more important

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<sup>4</sup>In the current media landscape, revenues obtained from readers are typically just a small fraction of total revenues (Newman et al., 2017).

but overly informed on others. In a context of ideological preferences, it follows that consumers may choose outlets that share their views even when they do not derive utility from belief confirmation (Mullainathan and Shleifer, 2005) or other forms of bounded rationality. Rather, the outlets that share their views make it easier for readers to find stories that interest them the most. Our model therefore provides a natural explanation for a preference for like-minded news. We also discuss aspects of polarization and tabloidization of the news, as well as political knowledge gaps and voter turnout, which we relate to conditions on preference and time costs of consumers.

Overall, this framework serves as a tractable model to analyze the intensive margin of consumer demand and firm decisions for a wide range of media platforms. The framework is particularly amenable to structural estimation, as well as to being extended in various directions so as to analyze different aspects of the media. It applies to the large number of media contexts in which readers have a flexible demand for content as well as a cost of processing the different items, and where firms influence the order in which items are presented.

**Related literature.** This paper relates to different strands of literature. It relates naturally to the economics literature on media bias, which has studied several sources of bias such as government media capture (Besley and Prat, 2006), ownership (Anderson and McLaren, 2012) and advertiser-driven bias (George and Waldfogel, 2003, Ellman and Germano, 2009, Germano and Meier, 2013) as examples of biases originating on the supply side, or slant towards consumer priors (Mullainathan and Schleifer, 2006) as an example of a bias originating on the demand side. The literature is surveyed in Gentzkow and Shapiro (2008), Blasco and Sobbrío (2012) and Prat and Strömberg (2013). Our paper identifies a new source of bias that derives from news media outlets advertising to time-constrained consumers and from technological aspects of processing the news, which can lead to both excessive amounts of news consumed and important news items being crowded out, and which can occur with otherwise neutral and fully rational consumers and firms.<sup>5</sup> We view this as a supply-driven bias. Our paper also identifies a new rationale for readers to prefer media outlets with “like-minded news,” which is simply that stories that are important to them are more likely to be ranked on top on those outlets.

The recent literature on search diversion and obfuscation in markets with an intermediary is also related to our results on rankings. Ellison and Ellison (2009) provide an empirical analysis of price elasticities and competition between internet retailers that attract customers through a search engine; Armstrong et al. (2009) and Hagiu and Jullien (2011) show how an intermediary platform can have incentives to divert search; Hagiu and Jullien (2014) look at search diversion with competing platforms; Rhodes (2011) stresses the role of prominence in otherwise frictionless markets; De Cornière and Taylor (2014) and Burguet et al. (2015) capture bias originating via advertising, and White (2012) and De Cornière (2016) study the design of search engines and analyze the resulting quality of

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<sup>5</sup>The bounded rationality interpretation of scarcity of cognitive resources is also consistent with our model. For the distinct notion of rational inattention used in macroeconomics and finance, see Sims (2003), among others. See Dyson (2004) for a survey on text layouts and reading effectiveness from screens.

matches.<sup>6</sup> This literature typically assumes consumers who buy at most one unit of a given product, thereby focusing on the *extensive* margin. By contrast, in our model, the time spent on the outlets can vary, and therefore the *intensive* margin of consumer demand is key. Consumers can consume multiple news items, which are drawn from multiple news topics and which can differ in terms of a further quality dimension, namely, newsworthiness; both the quantities and qualities can matter to our consumers and firms. At the same time, our paper focuses specifically on the market for news and possible political economy implications. Within this context, it studies the effect on news consumption of sub-optimal rankings of news items from distinct topics, and emphasizes the critical externalities that this implies to the general level of informativeness of consumers.

The paper also relates to the rapidly expanding literature studying the effects of technological innovations in digital media on news and advertising markets. Athey and Gans (2010) study the effects on news readership of innovations in the technology of advertising from a two-sided market perspective; George and Hogendorn (2012), Dellarocas et al. (2013), Chiou and Tucker (2017) and Jeon and Nasr (2016) and Athey et al. (2017) study the role of aggregators and hyperlinks as innovations in current news markets. Finally, Hong (2012) studies the effect on online news readership of news media firms adopting social media platforms such as *Twitter*; De Cornière and Sarvary (2018) study attention-constrained consumers who can access newssites directly or through a social media platform such as *Facebook* to see the effect among other things on the quality of news provided.

To this literature we contribute a novel framework that captures technological innovations through the costs of processing the news, combined with consumers' preferences and time constraints, to derive implications on media coverage. An advantage of our framework is that it can address such diverse issues while keeping track of the two-sided nature of media markets in a tractable manner.

The paper is structured as follows. Section 2 introduces the framework, Section 3 shows the main results. Section 4 discusses three extensions, and Section 5 concludes. All proofs are in the Appendix.

## 2 Model

We introduce the basic framework used throughout the paper.

**Media firms and stories of the day.** Consider a media firm whose actions consist in fully ranking the stories of the day. Let  $S$  denote the set of **stories**, which for simplicity we assume to be divided into two categories of topics covered,  $A$  and  $B$ , so that  $S = S_A \cup S_B$ , where  $S_k$  contains stories on topic  $k$ , with  $k \in K = \{A, B\}$ . Topics could represent broad categories, such as international and domestic news, politics or entertainment, or they could be more specific categories, such as news on the Middle East. We assume that  $S$  has cardinality  $N$  and that the media firm has access to all stories. The elements of  $S$  are denoted by  $s_n^k \in S_k$

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<sup>6</sup>For studies of communication and information overload that consider agents sending information and competing to reach audiences, see van Zandt (2004) and Anderson and de Palma (2012). We avoid this issue by assuming that firms all have access to the same set of stories.

There are two firms, denoted  $i \in I$ , where  $I = \{1, 2\}$ . Their strategies consist in fully ranking the stories in  $S$ . To describe the strategies of the media firm, if  $\mathcal{P}_N$  denotes the set of total strict rankings of the elements of  $S$ , then a **strategy** of the firm,  $\sigma \in \mathcal{P}_N$ , is a completely ordered  $N$ -tuple of stories of the day. Thus an outlet here cannot carry out its own investigation and cannot magnify or trivialize the newsworthiness of stories; it only has the technology to rank given stories in the order in which readers view their headlines. The notion of not reporting a story effectively corresponds to placing a story toward the end of the ranking.

Given the set of stories  $S$ , media firm  $i$  chooses  $\sigma^i$  to maximize **expected profits**, which, with a unit price per story read and zero fees collected from viewers, reduces to:<sup>7</sup>

$$\Pi_i(\sigma^i, \sigma^{-i}) = \sum_{k \in K} \sum_{s_n^k \in S_k} \mu_n^{k,i}(\sigma^i, \sigma^{-i}), \quad (1)$$

where  $\mu_n^{k,i} : \mathcal{P}_N \times (\mathcal{P}_N)^{I-1} \rightarrow [0, 1]$  is the mass of readers that the firm expects will read story  $s_n^k$  from its outlet, and  $I$  is the number of firms. In our basic model, a firm's profits are a function of the readership it obtains on all its stories. We now describe the readers' decisions.

**Readers' actions and preferences.** There is a continuum of readers normalized to mass 1. Let  $M_1$  and  $M_2 = 1 - M_1 \in [0, 1]$  denote the mass of readers that first access outlets 1 and 2, respectively. We use the term "bookmark" to denote the first outlet accessed by a reader.<sup>8</sup>

Assume that the readers all know the set  $S$  and that they need to read a story in order to consume the content. Any given story  $s_n^k \in S$  is characterized by a level of **newsworthiness**  $\lambda(s_n^k) \in [0, 1]$ . Newsworthiness measures how important and informative a story is to readers, and is ultimately what readers derive utility from; it is not an objective measure of quality, but rather it reflects the viewers' preferences.

Periods at which readers make their choices are denoted  $t \in \{1, \dots, T\}$ , but these periods need not correspond to a notion of time. Rather, they keep track of the sequence of the reader's choices. A period refers to the stage at which the reader takes an **action**  $a_t \in \{RD, SK, SW, ST\}$  to **read** a story ( $RD$ ), to **skip** it ( $SK$ ), to **switch** outlets ( $SW$ ), or to **stop** reading altogether ( $ST$ ). Readers derive utility from reading articles and incur a time cost from the actions  $RD$ ,  $SK$ , and  $SW$ .  $ST$  terminates the reader's game. We normalize the agent's continuation utility of stopping to 0. Note that the firm's choice of ordering has taken place *before* the reader's decision, and so the firm does not respond to each reader's choice by reordering the stories.

At any period  $t$ , the reader has **history**  $H_{t-1}$  of all the stories previously read or seen the headlines to. For any action  $a_t \in \{RD, SK, SW, ST\}$  taken in period  $t$ , given that the reader is

<sup>7</sup>In Section 3.3 and 4.2, we consider more general profit functions that include factors such as viewer fees and revenues derived from airing time-consuming advertisements.

<sup>8</sup>The bookmark partly covers other factors of reader preference, such as preference for a reading style, ease of access or being accustomed to a newspaper's layout. We consider below the important case in which readers can switch to other outlets at zero cost. Effectively, this also covers the case in which the bookmarks are endogenous, since readers can freely navigate between outlets and choose the one they prefer, at no cost.

observing headline  $s_n^k$ , the pair  $\{s_n^k, a_t\}$  is appended to his history so that  $H_t = \{\{s_n^k, a_t\}, H_{t-1}\}$ . Set  $H_0 = \emptyset$  for the reader's history at period 1. Implicitly, the history  $H_t$ , given by  $H_{t-1}$  and the currently chosen action, described below, determine the position of the reader's **cursor** after period  $t$ :

*RD* when a reader chooses to read a story, he observes the next story of the outlet's ranking; given strategy  $\sigma^i = (\sigma_1^i, \dots, \sigma_N^i)$ , if at time  $t$  he reads story  $\sigma_n^i$ , then the next observed story is  $\sigma_{n+1}^i$ , where  $\sigma_n^i = \emptyset$  for  $n > N$ ;

*SK* when a reader skips to another story, he observes  $\sigma_{n+1}^i$ ;

*SW* when a reader switches from outlet  $i$  to a thus far *unopened* outlet  $j$ , he observes the first headline of outlet  $j$ ,  $\sigma_1^j$ ; otherwise, if  $j$  had already been previously accessed, then he returns to where the cursor was when he left off.

The physical length of time of any period  $t$  depends on the action  $a_t$  chosen by the reader in that period. The variable that keeps track of **physical time** is  $\tau_t \in \mathbb{R}$ , which measures the time spent reading, skipping and switching by the end of period  $t$ . Set  $\tau_0 = 0$  and define  $\tau_t = \tau_{t-1} + \nu_{a_t}$ , where time spent as a function of the action taken satisfies  $0 \leq \nu_{SK} \leq \nu_{RD}$ . In words, it is never more costly to skip a story than to read it, and costs are never negative. We also keep track of the aggregate amount of news consumed on topic  $k \in K$  by the end of period  $t$ . Specifically, we keep track of the total amount of **news consumed**  $x_t^k$  on this topic, in all periods up to and including period  $t$ . This total amount is expressed as

$$x_t^k = \begin{cases} x_{t-1}^k + \lambda(s_t^k) & \text{if } a_t = RD \\ x_{t-1}^k & \text{otherwise,} \end{cases}$$

where  $x_0^k = 0$ .

Assume readers have the same instantaneous utility functions,  $u_k(\cdot)$ , for  $k \in \{A, B\}$ , which we assume satisfy  $u_k(0) = 0$  and are increasing ( $u_k'(\cdot) > 0$ ) and twice continuously differentiable. If  $u_k''(\cdot) = 0$  (linear case), then the agent's preference for stories on topic  $k$  is independent of what he has previously read. If  $u_k''(\cdot) > 0$ , then they are complementary; having already read stories on topic  $k$  increases the marginal utility of additional stories: their readers' interest in the subject grows as they read more about it. If  $u_k''(\cdot) < 0$ , then the agent has diminishing marginal utility of reading additional stories on a topic. We further assume that the costs satisfy  $c(0) = 0$  and are increasing ( $c'(\cdot) > 0$ ) and (weakly) convex ( $c''(\cdot) \geq 0$ ). For expositional reasons, throughout the paper, the cases  $u_A(x) = x$  and  $u_B(x) = x^2$  for the instantaneous utility functions on topics  $A$  and  $B$  respectively, and  $c(\tau) = \tau$  or  $c(\tau) = \tau^2$  for the cost function, will play a particularly important role.

We are now in position to define the reader's maximization problem. At period  $t = 0$  the agent chooses actions  $(a_1, \dots, a_T) \in \{RD, SK, SW, ST\}^T$  that maximize the **expected utility** function

$$U_0(a_1, \dots, a_T) = \sum_{k \in K} u_k(x_T^k(a_1, \dots, a_T)) - c(\tau_T((a_1, \dots, a_T))), \quad (2)$$

where, we assume that when the agent chooses to stop at any point ( $a_t = ST$ ), then he cannot return to reading in the future, and his expected utility from that period onwards is zero. The reader’s problem can be viewed as a standard Bellman equation, as discussed in Appendix A.<sup>9</sup>

**Timing and Equilibrium.** The timing of the game is as follows:

**Stage 1** Given the set of stories  $S$ , each media firm chooses a ranking of the stories  $\sigma^i(S)$ . All rankings are observed by the readers.

**Stage 2** There are multiple subperiods  $t \in \{1, \dots, T\}$ . At  $t = 1$ , readers in mass  $M_1$  have their cursor on the first headline of firm 1, and readers in mass  $M_2$  have their cursor on the first headline of firm 2. In this and subsequent subperiods  $t = 2, \dots, T$ , they choose an action  $a_t$  for every  $t$ , consume the corresponding news item and incur the corresponding cost, until they choose the terminal action  $ST$ . The cursor position is updated after every action  $a_t$ .

**Stage 3** Final payoffs of the firm and the readers are realized.

This leads to an extensive-form game  $\Gamma_{ext}$  between the media outlets and the readers. Given the media outlets’ strategies in Stage 1 and given that consumers are individually negligible and independent of each other, consumers’ expected demand and hence the media outlets’ expected traffic as a function of the ranking, is always well-specified and straightforward to derive for any profile of media firms’ strategies in Stage 1 (see Appendix A).<sup>10</sup> This allows us to reduce the game  $\Gamma_{ext}$  to a simultaneous game of complete information  $\Gamma$  between the firms in  $I$ . We study Nash equilibria of the game  $\Gamma$ .

**Discussion of the model.** The essential features of our model are that consumers do not see all the news at once, that they access ranked stories through given menus of choices, and that they incur reading, skipping and switching costs when processing the news. These attributes hold not only for online newspapers but also for other media types, including television, radio, print newspapers and magazines, as well as social media and other digital platforms. Note, moreover, that the costs here are not only of time, but can also be interpreted as costs of cognition. In other words, even if only a few clicks and scrolls could lead to another page, given the current competition for our attention, these may still be relatively high compared to their utility, given the scarcity of cognitive resources.

The framework allows us to capture important differences between media types through different costs of processing information. Consider, for instance, broadcast television and radio. In both cases, while the switching costs may be relatively low, the skipping costs can be high, and may even approach the reading cost of viewing or sitting through a whole story. Table 1 provides a conjecture of these

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<sup>9</sup>We use the term ‘expected’ utility to also cover the case where agents may be uncertain about the state of the world, which we study as a natural and realistic extension of the basic model in Section 4.3.

<sup>10</sup>Throughout the paper, we assume that, whenever the consumer is indifferent between two plans of action (or continuation plans), he always chooses the plan that maximizes the profits of the outlet he is initially on, at any given time  $t$ . If there are more than one such plans, then he randomizes (uniformly) among them. This assumption makes the selection  $\mu_n^{k,i}$  single-valued.

	skipping cost ( $\nu_{SK}$ )	switching cost ( $\nu_{SW}$ )	reading cost ( $\nu_{RD}$ )
Online news	low	low	low
Newspaper	medium	medium	low
TV news	high	low	medium
Radio news	high	low	medium

Table 1: Skipping, switching and reading costs by media type

costs, although these may of course vary. For the case of skipping costs, high refers to costs that can approach the reading cost, low means they are not too far from zero and medium means they are between the two but likely bounded away from both.

As we will see, this has implications for the amount and type of newsworthy stories eventually consumed. But even platforms such as *Twitter* and *Facebook* and blogs in general, typically maintain a high degree of control over the manner in which news or information is displayed. *Facebook*, for instance, has a newsfeed which provides users with a ranking of postings. To the extent that their incentives may also be to keep consumers reading more “news” stories, our model may be applied to show that similar tensions to the ones we will study in the following sections may arise here as well.

### 3 Main results

We present here our key results. We first focus on the case in which the switching costs are arbitrarily high, so that each firm effectively has a monopoly over its market share. We then consider the case of competition, or lower switching costs. Lastly, we analyze the case in which the firms can charge for consumer access. Throughout this section, we maintain that  $u_A(x) = x$  and  $u_B(x) = x^2$  and consider both linear cost functions of form  $c(\tau) = \tau$  and strictly convex ones of form  $c(\tau) = \tau^2$ .<sup>11</sup> When discussing welfare implications, we will first discuss reader-efficiency, before discussing overall welfare, which includes producers.

#### 3.1 Monopoly

We assume here that the switching cost ( $\nu_{SW}$ ) is prohibitively large, so that consumers never switch outlets. This allows us to view each outlet as a monopoly. We first study how a reader can be induced to read more than he wishes. We then move to situations where the reader can not only be induced

<sup>11</sup>All our results hold under more general assumptions on both utility and cost functions, for example,  $u_A(x) = x^n$ ,  $u_B(x) = x^m$  and  $c(\tau) = \tau^m$ , where  $m > n > 0$ ,  $m > 1$ . The crucial requirements are that  $u_B(\cdot)$  be more convex than  $u_A(\cdot)$ , with the interpretation that topic *B* be more “suspenseful” than topic *A*, and that  $u_B(\cdot)$  and  $c(\cdot)$  be convex.

to read more, but where more newsworthy stories are crowded out, in the sense that they are not read in equilibrium.

Before starting our analysis of equilibrium rankings, we note that when the skipping cost ( $\nu_{SK}$ ) is sufficiently low, the reader-efficient rankings are equilibria (and are payoff-equivalent for the firms to all other equilibria), since any (undesired) extra story inserted by the firm will simply be skipped by the readers.

**Extra stories read.** Suppose there are two stories,  $s_h$  and  $s_l$  on (linear utility) topic  $A$ , with  $\lambda_h = \lambda(s_h) > \nu_{RD}$  and  $\lambda_l = \lambda(s_l) < \nu_{RD}$ . The reader then wishes to read only story with newsworthiness  $\lambda_h$ , and not the one with  $\lambda_l$ . For now, suppose that the skipping cost is equal to the reading cost,  $\nu_{SK} = \nu_{RD}$ , so that the reader never skips a story that has positive newsworthiness. Then, if the utility from reading both stories is non-negative,

$$\lambda_h + \lambda_l - 2\nu_{RD} \geq 0, \tag{3}$$

then the firm can induce the reader to consume both stories, meaning that the reader reads more than he would have preferred to. Rewriting (3) as,  $\lambda_h - \nu_{RD} \geq \nu_{RD} - \lambda_l$ , allows the condition to have a visual interpretation. This can be seen in Figure 1a, where the shaded area  $C$  represents the net utility loss of reading the low newsworthiness story  $s_l$ , and the area  $D$  represents the net utility gain of reading the high newsworthiness story  $s_h$ . Intuitively, the reader is willing to incur a net disutility of reading an uninteresting story, if he will then read one that is interesting enough. The same would hold for a lower  $\nu_{SK}$ , if the following condition holds as well:

$$\nu_{SK} \geq \nu_{RD} - \lambda_l. \tag{4}$$

This ensures that the cost of skipping the low newsworthiness story  $s_l$  is higher than the net disutility of reading it (Figure 1b). Notice that in both cases, the more interesting story, which the consumer wishes to read, is placed after the less interesting one. Notice also that put together, (3) and (4) imply that, for this strategy to work, the following must hold:

$$\lambda_l \geq \max\{2\nu_{RD} - \lambda_h, \nu_{RD} - \nu_{SK}\}. \tag{5}$$

For additional intuition of this condition, note that in the special case for which  $2\nu_{RD} - \lambda_h = \nu_{RD} - \nu_{SK}$ , the expression can be simplified to  $\nu_{SK} = \lambda_h - \nu_{RD}$ . This corresponds to the knife-edge case in which the cost of skipping a story of low newsworthiness is equal to the net utility of reading a story of high newsworthiness. The condition then says that, for lower  $\nu_{SK}$ , the reader skips the low newsworthiness story, and for higher  $\nu_{SK}$  he does not.

Suppose now that there are more stories of newsworthiness  $\lambda_l$ . Again, ignoring first the skipping costs (i.e., assuming  $\nu_{SK} = \nu_{RD}$ ), the maximum stories  $m_l$  of low newsworthiness  $\lambda_l$  that can be

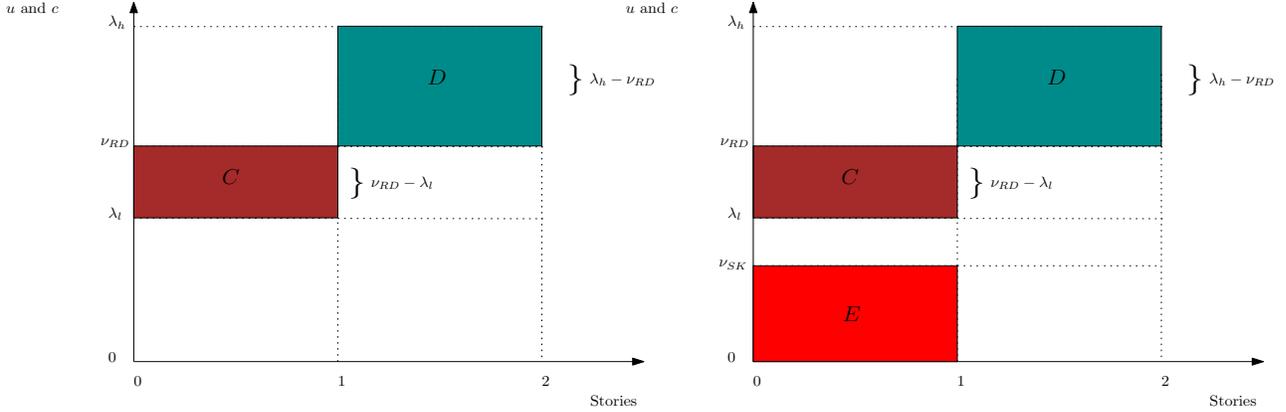


Figure 1: **One extra story read.** Left panel (a): Story with newsworthiness  $\lambda_l$  inserted before story with newsworthiness  $\lambda_h$  (Area  $D >$  Area  $C$ ) for skipping costs  $\nu_{SK} = \nu_{RD}$ . Right panel (b): Skipping costs are lower but still too high to skip  $\lambda_l$  (Area  $E >$  Area  $C$ ). The  $x$ -axis represents story order, the  $y$ -axis represents newsworthiness.

inserted before story  $s_h$  is:

$$m_l = \lfloor \frac{\lambda_h - \nu_{RD}}{\nu_{RD} - \lambda_l} \rfloor, \quad (6)$$

as shown in Figure 2a. Accounting once more for the skipping cost leads to the same condition as before (Condition (3)), for identical reasons. That is, this condition ensures that the cost of skipping the story is higher than the disutility of reading it.

Introducing more stories of newsworthiness  $\lambda_h$  does not complicate the analysis. In particular, assume there are  $m_h$  stories of newsworthiness  $\lambda_h$ . As can be seen from Figure 2b, Condition (6) on the maximum number of inserted stories  $m_l$  of newsworthiness  $\lambda_l$  would then simply change to:

$$m_l = \lfloor \frac{m_h(\lambda_h - \nu_{RD})}{\nu_{RD} - \lambda_l} \rfloor. \quad (7)$$

The reasoning above leads us to the following proposition.

**Proposition 1 (Extra stories read (linear preferences)).** *Let  $\Gamma$  be a game where readers have utility functions  $u_A(x) = x$  and cost function  $c(\tau) = \tau$ , and suppose that there are  $m_h$  stories on topic  $A$  of newsworthiness  $\lambda_h > \nu_{RD}$ , implying that the reader-efficient equilibrium ranking entails that the consumer reads all  $m_h$  stories. Then a necessary and sufficient condition on a story  $s_l$  on topic  $A$  of newsworthiness  $\lambda_l < \nu_{RD}$  to be inserted, such that it is also read in equilibrium, is:*

$$\lambda_l \geq \max\{(m_h + 1)\nu_{RD} - m_h\lambda_h, \nu_{RD} - \nu_{SK}\}, \quad (8)$$

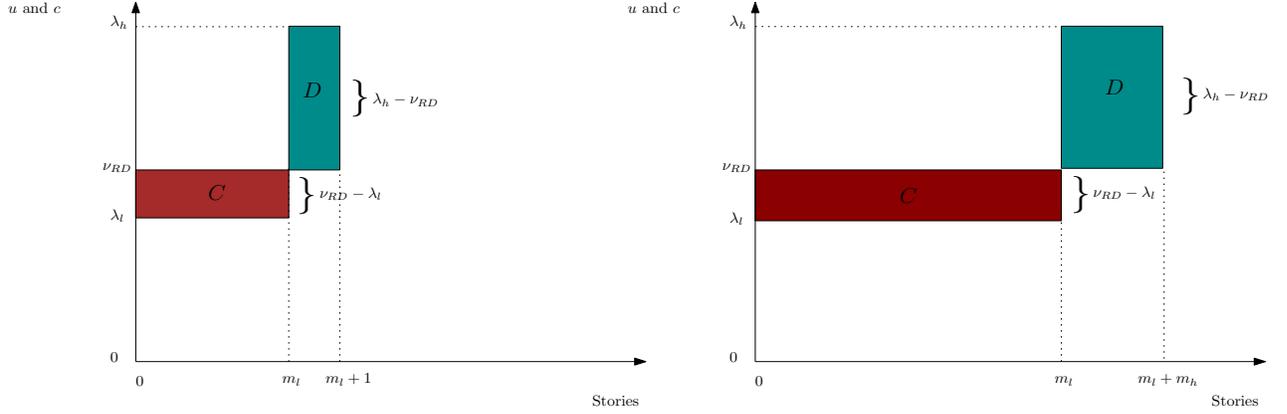


Figure 2:  $m_l$  extra stories read. Left panel (a):  $m_l$  stories with newsworthiness  $\lambda_l$  inserted before one story with newsworthiness  $\lambda_h$  (Area  $C = m_l(\nu_{RD} - \lambda_l) = \text{Area } D = \lambda_h - \nu_{RD}$ ). Right panel (b):  $m_l$  stories with newsworthiness  $\lambda_l$  inserted before  $m_h$  stories with newsworthiness  $\lambda_h$  (Area  $C = m_l(\nu_{RD} - \lambda_l) = m_h(\lambda_h - \nu_{RD}) = \text{Area } D$ ).

where the reading and skipping costs satisfy  $0 < \nu_{SK} < \nu_{RD} < \lambda_h$ . The maximum number  $m_l$  of extra stories of newsworthiness  $\lambda_l$  that can be inserted such that they are all read, together with the  $m_h$  stories of newsworthiness  $\lambda_h$ , is:

$$m_l = \lfloor \frac{m_h(\lambda_h - \nu_{RD})}{\nu_{RD} - \lambda_l} \rfloor. \quad (9)$$

Notice that, given the stories read, the strategy of placing stories of newsworthiness  $\lambda_h$  later and stories of  $\lambda_l$  earlier cannot be improved upon. It is only if the media outlet cannot induce the consumer to read a story of newsworthiness  $\lambda_l$  that a story of newsworthiness  $\lambda_h$  is placed first. More generally, for constant marginal cost, the main feature is to have stories with value  $\lambda(s) > \nu_{RD}$  after those of value  $\lambda(s) < \nu_{RD}$ , when the consumer can be induced to read stories of the latter type. Still in the special case of constant marginal cost, we also note that firms can use other strategies, such as alternating from first having a story of newsworthiness  $\lambda_l$  to one of newsworthiness  $\lambda_h$ , and so forth. In particular, this strategy can be used on  $\min\{m_l, m_h\}$  stories of newsworthiness  $\lambda_l$  followed by  $\lambda_h$ . Such a strategy may be used by firms, for example, when there are readers that may lose patience from reading too many uninteresting stories.

**Crowding out of stories.** We now analyze the conditions under which a stronger form of extra stories read occurs, namely, one where the extra stories actually *crowd out* other stories the reader would otherwise have preferred to read. Note first that with constant marginal cost, crowding out of linear topic  $A$  could not occur. This is because the marginal benefit-marginal cost tradeoff for any story that the reader wishes to read is not affected by what is read previously. Specifically, the

firm will always wish a reader to read story of  $\lambda_h > \nu_{RD}$  eventually, although, as discussed above, it may have him read other stories as well. If, however, the marginal cost is not constant, and if utility of topic  $B$  is more convex than for topic  $A$ , then stories of topic  $A$  may be crowded out. This is characterized in the next proposition.

Suppose that stories on topic  $A$  have newsworthiness  $\lambda^A \in (\nu_{RD}^2, 3\nu_{RD}^2)$ , and that stories on topic  $B$  have newsworthiness  $\lambda^B = \nu_{RD}$ . This implies that the consumer wishes to read exactly one story on topic  $A$ , and is unwilling to read more than that. The assumption on topic  $B$  is made for simplicity and can be relaxed, but it is used to effectively consider the extreme case in which the net utility gain from reading stories on this topic can be at most zero. As shown in Figure 3, in which  $\lambda^A = 2\nu_{RD}^2$ , the agent has positive net utility from reading that story, and nothing else. But if stories of topic  $B$  are placed beforehand and the skipping cost is sufficiently high, then the reader will read those, but not the story of topic  $A$ . This is because the utility of that story is the same as before, but the marginal cost is now high enough that the total utility gain would be negative. Hence, the reader ends up consuming only the stories of topic  $B$ , and his total utility of reading is 0. This result is formalized in the following proposition.

**Proposition 2 (Crowding out of stories).** *Let  $\Gamma$  be a game where readers have utility functions  $u_A(x) = x$ ,  $u_B(x) = x^2$ , and cost function  $c(\tau) = \tau^2$ . Suppose that the stories on topic  $A$  have newsworthiness  $\lambda^A \in (\nu_{RD}^2, 3\nu_{RD}^2)$ , and that there are  $m_B > 1$  stories on topic  $B$ , all of newsworthiness  $\lambda^B$  such that  $\lambda^B = \nu_{RD}$ , implying that the reader-efficient equilibrium ranking entails that the consumer read only one story of topic  $A$ . Then a necessary and sufficient condition for story  $\lambda^A$  to be crowded out by the  $m_B$  stories of topic  $B$  is for the skipping cost to satisfy:*

$$\nu_{SK} \geq \frac{\sqrt{\lambda^A} - \nu_{RD}}{m_B}. \quad (10)$$

When topic  $A$  with the more newsworthy stories has linear  $u_A(\cdot)$  linear, while  $u_B(\cdot)$  and  $c(\cdot)$  are sufficiently convex, then not only can an outlet have the reader read more stories than he would like, but it can do so in a way that the reader no longer reads the more newsworthy stories of topic  $A$ .

We use the simple functional forms to illustrate the workings of the mechanism, but the essence of the claim does not rely on the linearity of topic  $A$ . Its key requirements are that  $u_B(\cdot)$  be more convex than  $u_A(\cdot)$  (topic  $B$  more “suspenseful” than topic  $A$ ), and  $u_B(\cdot)$  and  $c(\cdot)$  be convex. For instance, suppose that  $u_A(x) = x^n$ ,  $u_B(x) = x^m$  and  $c(\tau) = \tau^m$ , where  $m > n > 0$ , and  $m > 1$ . Then, suppose that  $\lambda^A \in (\nu_{RD}^{m/n}, \frac{(2\nu_{RD})^{m/n}}{2})$ , and maintain the rest as in Proposition 2.<sup>12</sup> Then, as shown in Appendix B, the statement is now changed such that the necessary and sufficient Condition (10) for a story with  $\lambda^A$  to be crowded by the  $m_B$  stories of topic  $B$  is that the skipping cost to satisfy:

$$\nu_{SK} \geq \frac{(\lambda^A)^{n/m} - \nu_{RD}}{m_B}.$$

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<sup>12</sup>We maintain the curvature of  $c(\cdot)$  to be the same as for  $u_B(\cdot)$ , for ease of exposition and to avoid stating extra conditions. There could clearly be crowding out if the cost function  $c(\cdot)$  were more convex than that of  $u_B(\cdot)$ .

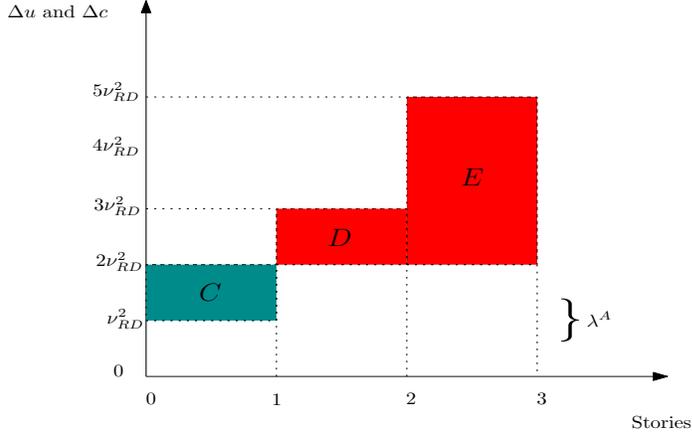


Figure 3: **Crowding out.** Reading just story of topic A gives utility  $u_A(\lambda^A) = \lambda^A = 2\nu_{RD}^2$  and cost  $c(\nu_{RD}) = \nu_{RD}^2$ , leaving net utility  $\nu_{RD}^2$  (Area C). The same story placed after two stories of topic B, still gives incremental utility of  $\lambda^A = 2\nu_{RD}^2$ , but the incremental cost is now  $c(3\nu_{RD}) - c(2\nu_{RD}) = 5\nu_{RD}^2$ , leaving a net disutility of  $3\nu_{RD}^2$  (Area E). The reader does not read the story of topic A after two of topic B. Similarly, if the story of topic A is placed after one story of topic B it is not read, since it gives a net disutility of  $\nu_{RD}^2$  (Area D).

### 3.2 Competition

The propositions above focus on the case in which the switching cost is high enough that the readers never switch outlets and outlets act as monopolists. Here we consider the case in which switching costs are lower, including the limiting case of zero cost, or perfect competition.

The previous graph can be used to illustrate how the crowding out of stories result can hold even in the limit of perfect competition. To see this, suppose that there are two firms ( $I = 2$ ), each with half the market share ( $M_1 = M_2 = 1/2$ ). The newsworthiness of the stories of topics A and B are as before, and so the readers only wish to read the story on topic A of newsworthiness  $\lambda^A$ . To obtain crowding out to occur with two firms in competition, a stronger condition needs to be satisfied. Consider first the extreme case of perfect competition where  $\nu_{SW} = 0$ . In this case, there is always a reader-efficient equilibrium, because if a firm deviates to a non-reader efficient strategy, then the other firm will capture the entire market. However, there can also exist equilibria that are not reader-efficient. In particular, crowding out can occur. For instance, in Figure 3, in which  $m_B = 3$  stories of topic B are read when switching costs are prohibitively high, the same equilibrium remains when switching costs are zero. This is because even though a firm can deviate by placing at the top of the ranking the story of topic A that the reader wishes to read, and have the entire market reading one story, this generates less profit than having 1/2 the market, but where each reader reads 3 stories. (It can also be shown that placing the story a little earlier, but not at the top, would not lead readers to switch outlets.) More generally, if the firms do not have the same share of the market, then letting

$M = \min\{M_1, M_2\} = \min\{M_1, 1 - M_1\}$ , the crowding-out equilibrium occurs if  $m_B \geq 1/M$ .<sup>13</sup>

In the intermediate case in which switching costs are non-zero, but not necessarily prohibitively high, then, for crowding out to be an equilibrium, it suffices either for the condition above to hold, or for the switching cost to be high enough that it is not compensated by the utility gain. If the latter case holds, then the reader-efficient equilibrium will no longer exist. We summarize these results in the next proposition.

**Proposition 3 (Crowding out of stories (competition)).** *Suppose there are two firms with market shares  $0 < M_1, 1 - M_1 < 1$ , and that all the conditions of Proposition 2 hold. A crowding-out equilibrium occurs if and only if at least one of the two following conditions is satisfied:*

$$m_B \geq 1/M, \text{ for } M = \min\{M_1, 1 - M_1\}, \quad (11)$$

or

$$\nu_{SW} \geq \sqrt{\lambda^A} - \nu_{RD}. \quad (12)$$

Moreover, jointly with the conditions of Proposition 2, Condition (12) is necessary and sufficient for only the crowding-out equilibria to exist.

As in the case without competition, the result does not rely on the functional form, which we have maintained for simplicity. In particular, using again the same generalizations as above ( $u_A(x) = x^n$ ,  $u_B(x) = x^m$  and  $c(\tau) = \tau^m$ , where  $m > n > 0$ ,  $m > 1$ , and  $\lambda^A \in (\nu_{RD}^m, \frac{(2\nu_{RD})^{m/n}}{2})$ ), Proposition 3 holds, with the simple change that Condition (12) is replaced by the condition:  $\nu_{SW} \geq (\lambda^A)^{n/m} - \nu_{RD}$ .

### 3.3 Charging for Consumer Access

We now consider the case in which media firms can charge a price that gives consumers access to their content. In particular, we show that charging for access can lead to a return to reader efficiency, under some conditions.<sup>14</sup> The crowding-out equilibria can still exist (under some conditions), however, both with monopoly and with competition, as we discuss below.

Suppose that each firm  $i \in \{1, 2\}$  can charge a fixed access fee,  $p^i \geq 0$ , in stage 1 of the game, that allows readers to access  $i$ 's website. Formally, within the basic game  $\Gamma$  (or  $\Gamma_{ext}$ ), the fees  $p = (p^1, p^2)$  are added as strategic variables to the firm's rankings  $\sigma$  so that:

$$\Pi_i(\sigma, p) = \alpha \sum_{k \in K} \sum_{s_n^k \in S_k} \mu_n^{k,i}(\sigma, p) + p^i \mu_{fee}^i(\sigma, p), \quad (13)$$

where  $\alpha > 0$  represents the price generated per story click (we had previously normalized it was 1, as it had no impact on the previous results), and  $\mu_{fee}^i$  is the share of agents who choose to pay the

<sup>13</sup>A similar result holds with  $I > 2$  firms. Specifically, set  $M = \min\{M_1, \dots, M_{I-1}, 1 - \sum_{i=1}^{I-1} M_i\}$ , and the rest of the analysis goes through.

<sup>14</sup>Hagi and Jullien (2011, 2014), in different frameworks, also obtain that charging fees may bring rankings closer to efficiency.

access fee price  $p^i$  to firm  $i$ .

This adds a fixed (state-independent) viewer fee component – the sum of all fees received – to the firm’s profit function in Section 2. The reader’s expected utility function is as before, except that the fee  $p^i$  is now subtracted when the reader accesses firm  $i$ ’s website for the first time.

Consider first the case of (sufficiently) high switching costs at which each firm is effectively a monopolist, as in Section 3.1. A firm then faces a trade-off between giving a ranking preferred by the reader, thus being able to charge a higher access fee but losing revenue from the diminished number of stories read, and selecting a ranking with a higher number of stories read but charging a lower access fee  $p^i$ . In particular, note that for  $\alpha$  sufficiently high, the firm will not change its rankings of stories, but instead set  $p^i$  at exactly the amount of the consumer surplus (utility of consuming stories net of cost). Instead, if  $\alpha$  is sufficiently close to zero, then the firm will choose the reader efficient ranking, again setting  $p^i$  to the surplus level. In both cases, the firms appropriate all the consumer rent. The difference lies in which ranking is provided to the viewers.<sup>15</sup>

Formally, returning first to the linear setting of Proposition 1, the following result holds.

**Proposition 4 (Extra stories with pricing (monopoly)).** *Suppose preferences and costs are as in Proposition 1, and that  $\lambda_l < \nu_{RD}$  satisfies Condition (8), meaning that at least one story of newsworthiness  $s_l$  is read. Moreover, suppose that there are  $m_l$  such stories read, where  $m_l$  is determined by Condition (9). Then, if  $\alpha > \nu_{RD} - \lambda_l$ , the same reader-inefficient equilibria remain as the only equilibria, with the addition that the monopoly firm sets the access price at:*

$$p^i = m_h(\lambda_h - \nu_{RD}) + m_l(\lambda_l - \nu_{RD}). \quad (14)$$

*Otherwise (if  $\alpha \leq \nu_{RD} - \lambda_l$ ), the firm provides the reader-efficient ranking, and sets the price at:*

$$p^i = m_h(\lambda_h - \nu_{RD}). \quad (15)$$

*In both cases, the readers’ net utility is 0.*

Moving to the case of crowding out and the setting of Proposition 2, the following result holds.

**Proposition 5 (Crowding out with pricing (monopoly)).** *Suppose preferences and costs are as in Proposition 2. Then, if  $\alpha > \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ , the reader-inefficient ranking, with access price set at  $p^i = 0$ , is the only equilibrium if and only if Condition (10) holds. Otherwise (if  $\alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ ), the reader-efficient ranking is provided, and the firm sets the access price at:*

$$p^i = \lambda^A - \nu_{RD}^2. \quad (16)$$

*In both cases, the readers’ net utility is 0.*

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<sup>15</sup>In the results that follow, the reader-efficient ranking refers to what the reader would wish to read, absent of access fees.

The reason that the access price is  $p^i = 0$  in the case of reader-inefficiency is that the reader's net utility was already 0 in that case, and so the monopoly could not extract more surplus from the reader. This is a feature of the simplifying assumption that  $\lambda^B = \nu_{RD}$ ; had it not been for this assumption, the price would have been strictly positive.

We now consider the case of competition, in an analogous way to Section 3.2, and specifically to the setting of Proposition 3. Then, a crowding out equilibrium may still exist, for high enough  $\alpha$ . In that case the price will be  $p^i = 0$  as before, again by virtue of the utility already being zero.<sup>16</sup> We do not include all the possible conditions as these are lengthy, but we include important conditions for which crowding out equilibria remain, including for low switching costs.

**Proposition 6 (Crowding out with pricing (competition)).** *Suppose there are two firms with market shares  $0 < M_1, 1 - M_1 < 1$ , and that all the conditions of Proposition 2 hold. If  $\alpha > \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ , then the reader-inefficient ranking with access price set at  $p^i = 0$  is an equilibrium if and only if Condition (12) of Proposition 3 or the condition  $\alpha > \frac{\lambda^A - (\nu_{RD} + \nu_{SW})^2}{m_B M - 1}$  is satisfied (where again  $M = \min\{M_1, 1 - M_1\}$ ). Moreover, jointly with the conditions of Proposition 2,  $\alpha > \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$  and Condition (12) are necessary and sufficient for only the reader-inefficient equilibria to occur. In all the above cases, the readers' net utility is 0. Otherwise (if  $\alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ ), the reader-efficient ranking is provided, and the access price is set according to a mixed strategy distribution with support inside  $[0, \lambda^A - \nu_{RD}^2]$ . Readers' net utility need not be 0 in this case.*

In practice, there are several caveats that make charging access possibly difficult. First, heterogeneity in readers make it difficult for a firm to target perfectly each agent by their exact willingness to pay. Second, firms may generate substantial revenues from advertising, which itself links to number of clicks (stories read). If so, and if the revenue that firms can get from charging readers is not enough to compensate the lost advertising revenue (for instance, if the readers' willingness to pay is low), then pricing would not necessarily lead to reader efficiency. Lastly, consumers may be unwilling to pay a transaction cost required to pay the fee, especially for online content.

### 3.4 Aggregate Welfare

We have so far focused on the reader-efficiency of firm rankings of stories and have not discussed total surplus, which also includes firm profits. The reason for this is that the importance of the media, and of having reader-efficient rankings, is not solely about utility, but also about information acquired by the readers. This is especially relevant in a political economics context. While we have not modeled information explicitly, nor potential externalities of information, we believe nonetheless that reader-efficient rankings can provide some guidance on the issue. We discuss a political economics context in which such an informational externality is present in Section 4.2, and discuss here, briefly, the case of total surplus, that is, the sum of profit and reader utility, when such externalities are ignored.

<sup>16</sup>Without the assumption that  $\lambda^B = \nu_{RD}$ , the reader inefficient ranking would remain for high enough  $\alpha$ , but the price would be 0 when the switching costs are  $\nu_{SW} = 0$ .

Consider thus total surplus defined in the following way:

$$TS(\sigma) = \beta \sum_{i \in I} \Pi_i(\sigma) + (1 - \beta)CS(\sigma), \quad (17)$$

where  $\beta > 0$  is a welfare weight on profits, since the utility functions may not be normalized to the same units as firm profits, and CS is simply the total utility of all readers.

Again,  $\beta$  is crucial in determining whether the reader-efficient ranking is also the overall efficient ranking. When  $\beta$  is sufficiently small ( $\beta \rightarrow 0$ ), the reader-efficient ranking is also surplus maximizing. However, when  $\beta$  is large ( $\beta \rightarrow 1$ ), then the ranking that maximizes firm’s profit, which need not be the reader-efficient one, also maximizes total surplus. Our analysis, which focuses on reader efficiency, can be interpreted as being concerned with the case where  $\beta$  is small, meaning that the weight on firms’ profits is significantly less important than the weight on consumers’ utilities.

### 3.5 Discussion of the Results

Our main results identify conditions on the parameters of the model under which readers may end up reading extra stories, or conditions under which some stories readers would otherwise prefer to read, may not get read in equilibrium. We argue that certain soft news stories may belong to the category of extra stories read, while certain hard news stories may belong to the category of stories crowded out. We use this to address some outstanding problems and puzzles of the current media environment that we revisit in Section 4.2.

**Equilibrium and reader-efficient rankings.** The theory developed does not specify which stories readers may or may not prefer to read and which topics may be associated with more or less convex utility functions. Clearly this depends on the stories and the individual preferences case by case. However, based on studies of news coverage and surveys of consumer preferences it seems that soft news or “tabloid” news stories (celebrity scandals, crime or accident stories) along with advertisements are likely to belong to the type of extra stories read, whereas hard news stories (policy or public affairs stories) are likely to belong to the type of stories that may get crowded out.<sup>17</sup> Notice also that, although there may be an important difference in the stories covered or in their ranking compared to the reader-efficient one, the difference in utility for those readers that continue to read in equilibrium cannot be too large and is generally determined by the relevant outside option. In particular, as shown in the proof of Proposition 2, the maximum utility loss that the reader incurs in the crowding

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<sup>17</sup>Patterson (2000), Robinson (2007), and Schröder (2019) document how most consumers have a preference for hard news and are actually bothered by soft news such as celebrity, crime or accident stories; see also Ladd (2012), Patterson (2013) and Bennett (2016). For example, Schröder (2019) states: “the lowest-rated stories are ones that we would typically encounter on the ‘Most Read’ lists of online news media: a celebrity story about the American reality TV and fashion personality Khloe Kardashian and a ‘weird news’ story about a banker from Essex, who is a Kim-Jong-un lookalike. At least half of our participants singled these out as stories they would not want to read,” p. 24. A similar pattern emerges when looking at the type of stories that consumers share on social media (Bright, 2016) or share via email (Boczkowski and Mitchelstein, 2013); other studies confirm that the number of clicks or the amount of time spent on stories accessed online may not be representative of consumers’ true preferences for those stories (Groot Kormelink and Costera Meijer, 2018, 2019).

out equilibrium discussed in Propositions 2 and 3 is  $(m_B \nu_{SK} + \nu_{RD})^2 - \nu_{RD}^2$ , which goes to zero as  $\nu_{SK} \rightarrow 0$ . Still, the stories themselves can be completely distinct, as shown previously. Moreover, it is also straightforward to see that if a story is highly newsworthy, for instance in the case of a global catastrophe, then the reader will find it. Formally, for any parameter values of  $\nu_{SK}, \nu_{RD}, \nu_{SW}$ , if a story has a large enough newsworthiness  $\lambda^A$ , then the consumer will read it.

In what follows, we discuss the comparative statics of the size of the discrepancy between equilibrium and reader efficient rankings for the different parameters of the model.

**Important media events and the news gap ( $\lambda_k$ ).** The model predicts that when there are stories with high newsworthiness, and time costs are convex, then it will pay off for the readers to skip the low level stories and go straight to the high level ones, and the media firms do not have an incentive to put low level stories before the high level ones (see the strengthening of the necessary conditions on the skipping and switching costs as  $\lambda_A$  increases in Propositions 2 and 3). We interpret this as suggesting that in periods of heightened or sensational news events (such as during elections, crises, conflict, or natural disasters), fewer extra stories will be inserted and fewer stories will be crowded out, and hence we expect a smaller divergence between the equilibrium and the reader efficient ranking. This is consistent with empirical evidence looking at the *news gap*, a measure of the difference between the most prominently placed and the most viewed news stories. Robinson (2007) finds a small news gap in periods of catastrophes, natural or man-made disasters; Boczkowski and Mitchelstein (2013) find that the news gap is large in periods of regular political activity, but substantially smaller in periods of heightened political activity.

**Convex utility and tabloid news ( $u_k(\cdot)$ ).** Another aspect that is worth emphasizing, and which is also related to the previous point, is the role of the curvature of the utility functions  $u_k(\cdot)$ . A convex utility function  $u_k(\cdot)$  reflects the fact that more stories read on topic  $k$  will increase the marginal utility of the next story read on that topic, and the more convex the utility function the larger the marginal increase. In other words, all else being equal, topics over which individuals have convex preferences are more “suspenseful” or “attention-grabbing” and tend to be favored by firms, since as consumers read more stories on such topics, they become relatively more interested in those topics compared to others.<sup>18</sup>

Eisensee and Strömberg (2007) find evidence of such convex preferences over attention-grabbing events (for instance, disasters are significantly more likely to be covered if a similar type of disaster on another continent were covered a few days before), and further find that newsworthy items are crowded out by news coverage over such events, confirming their empirical relevance to media coverage. By contrast, topics with a linear utility function are not attention-grabbing in the sense that the marginal utility of the next story is constant and does not depend on the number of stories previously read on that topic. As discussed above, it appears that soft news stories (celebrity scandals, crime and

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<sup>18</sup>Bennett (2016) discusses the tendency of profit-driven news media in the US to exaggerate attention-grabbing elements to engage citizens in the context of political news coverage and derives several journalistic biases such as the fragmentation and dramatization of stories, or the emphasis on individual or personal aspects of politicians, rather than on actual policy, institutional or social aspects.

accidents, and disasters) are more likely to be associated with convex utility functions, while hard news stories (public affairs and science) are more likely to be associated with linear utility functions.

To contrast the role of the convexity of the utility function with the case of high newsworthiness mentioned just above, consider the case of the death of television celebrity Anna Nicole Smith on February 8, 2007, which is well-known for being particularly attention-grabbing. During just over three weeks, an estimated 32% of Fox News Channel’s coverage, 21% of MSNBC and 14% of CNN’s coverage were dedicated to it (PEJ, 2007). In aggregate, throughout those weeks, nearly a quarter of the cable television’s airtime in the US was devoted to this topic. Important events that received much less coverage include the race to the White House, events in Iraq and Iran, the agreement with North Korea to dismantle its nuclear facility, the IPCC’s confirmation of man’s role in causing global warming, also, the combined coverage of Russia, China and India barely reached one percent during those weeks. At the same time, 71% of respondents stated a lack of interest in the story, according to CNN’s own polls (PEJ, 2007). Whereas in cases of truly sensational media events or events of heightened political activity, the gap between equilibrium and the reader efficient rankings is small – whether or not the utility functions for the relevant topics are convex – this need not be the case if a mildly newsworthy event with a highly convex utility function is used to crowd out other more newsworthy stories.

**Strongly time-constrained readers and the news gap ( $c(\cdot)$ ).** We refer to readers with a higher cost of time as being more time-constrained. To illustrate what happens when time costs increase, suppose we change the cost function in Proposition 1 from  $c(\tau) = \tau$  to  $\tilde{c}(\tau) = \kappa \cdot c(\tau)$  for  $\kappa > 1$ . Because increasing the cost of time decreases both the net utility gains from reading newsworthy stories but also increases the cost of reading the extra stories inserted, it is not difficult to see that, increasing the cost of time from  $c(\cdot)$  to  $\tilde{c}(\cdot)$  reduces the scope for extra stories read (and similarly for stories crowded out in the next propositions), in the sense that in general, the conditions on preference parameters become more stringent, while the amount of extra stories that can be inserted decreases.<sup>19</sup>

**Reading cost and advertising with time-constrained readers ( $\nu_{RD}$ ).** Advertising can affect media consumption through the time costs it imposes as well as through the screen space and attention it takes away from news stories. While there are clearly many ways in which the display of ads can be explicitly incorporated into our framework, a particularly straightforward one is by assuming that with every story an ad appears as forced-view, whereby the ad generates a positive reading cost and has zero (or near-zero) newsworthiness.<sup>20</sup> In this case, higher advertising can be modeled simply as an increased reading cost ( $\nu_{RD}$ ). Our model then predicts that a higher reading cost (weakly) increases

<sup>19</sup>In Appendix B, we show that in Proposition 1 with  $\tilde{c}(\cdot)$  instead of  $c(\cdot)$ , we get  $\tilde{\lambda}_l > \lambda_l$  and  $\tilde{m}_l < m_l$  for the corresponding parameters  $\tilde{\lambda}_l$  and  $\tilde{m}_l$  satisfying Conditions (8) and (9), respectively, when  $\kappa > 1$ , compared to the case  $\kappa = 1$ . Analogous results can be shown for Propositions 2 and 3.

<sup>20</sup>More generally, one could allow firms to present ads a forced view that need not appear with every story. In this case our model would allow to compute the optimal placement of ads and its implications for the news ranking and consumption as a function of the preferences and the newsworthiness of the stories available. This goes beyond the scope of this paper.

the stories crowded out in equilibrium (through the weakening of the conditions on the skipping cost in Proposition 2 under monopoly and on both the skipping and switching cost in Proposition 3 under competition), implying that advertising further contributes to the crowding out of stories.<sup>21</sup> Furthermore, a higher reading cost (and hence advertising) also (weakly) decreases the number of extra stories read in equilibrium (see the formula for  $m_l$  in Proposition 1, which is decreasing in  $\nu_{RD}$  in the relevant range) and (weakly) reduces the fee that can be charged in equilibrium (see the formulas for  $p^i$  in Propositions 5 and 6).

**Profits, technology and hybrid media** ( $\nu_{SK}, \nu_{SW}$ ). The model predicts that lower skipping or switching costs ( $\nu_{SK}, \nu_{SW}$ ) (weakly) increase utility levels and (weakly) decrease profits.<sup>22</sup> In particular, when switching costs are sufficiently low, we expect that readers will prefer to switch to outlets or media types with lower skipping costs. Consider, for instance, broadcast television and radio. In both cases, while the switching costs may be relatively low, the skipping costs can be high, and may even approach the reading cost of viewing or sitting through a whole story. As suggested in Table 1, to the extent that the skipping costs are lower in online media, our findings may also explain part of the migration of viewers *away* from television and radio to online news consumption (Pew Research Center, 2012).<sup>23</sup> We will return to this in Section 4.1. We also note that switching costs allow us to capture in an economical way a number of different settings of the model. Prohibitively high switching costs corresponds to the monopoly case, while at the other extreme, zero switching costs corresponds to a duopoly case, where readers can move freely from one outlet to another. Since our main results hold even for the latter case of low or zero switching costs, this suggests that they would hold as well if there were reputational concerns. This is because the equilibrium with zero switching costs captures a case of reduced friction, where agents can move from one outlet to another at no cost.

**Media deregulation and concentration of ownership** ( $I$ ). The model predicts that, for sufficiently low switching costs, as the number of (competing or separately owned) firms  $I$  increases, the discrepancy between equilibrium and reader efficient rankings decreases (see the stricter conditions for crowding out to occur with competition ( $I = 2$ ) in Proposition 3 and the more general case ( $I \geq 2$ ) briefly mentioned in footnote 13). As argued above, a larger discrepancy may be associated with more soft news and fewer hard news stories being prominently ranked. In some markets, this

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<sup>21</sup>The source of disutility here involves the effect on stories read (or *not* read) in equilibrium, besides the time cost imposed by advertising. This is related to the two-sided market models in which advertising causes a general disutility of consuming media programs through its effects on firm revenues, as in Anderson and Coate (2005) and Wilbur (2008); it is also related, though distinct from models in which advertising can distort the type and quality of reporting, such as George and Waldfogel (2003), Hamilton (2004), Ellman and Germano (2009) and Germano and Meier (2013).

<sup>22</sup>It is not difficult to see how with zero skipping costs all equilibria collapse to the reader-efficient ranking and that increasing the skipping cost gives the firm increasing margin (up to a limit) to place extra stories and thereby depart from the reader-efficient ranking. The switching cost plays a similar role with the difference that a zero switching cost does not necessarily guarantee a reader-efficient ranking as the unique equilibrium.

<sup>23</sup>Notice that the migration to online media is significantly less important for older audiences, for whom the switching cost of reading the news online is significantly larger. Clearly, if switching costs become sufficiently low for all audiences, audience migration away from the traditional media like TV may, over time, induce them to provide more reader-efficient rankings.

may have contributed to TV news content becoming increasingly “lite” or “dumbed down” as has been documented in many instances and over various decades since the 80s, as the concentration of ownership has increased in some markets (Patterson, 2000, 2013, Hamilton, 2004, Rosenstiel et al., 2007, Jones, 2009, Ladd, 2012, and Bennett, 2016). This reduction of competition has also been linked in US markets to the deregulation laws introduced since the 80s and culminating with the Telecommunications Act of 1996.

**Fragmentation of the media ( $\alpha$ ).** Another implication of our model is that, as the relative importance of advertising as a source of revenue increases ( $\alpha$ ), the incentives of the firms to keep readers reading become larger, thereby contributing towards a greater discrepancy between the equilibrium and the reader efficient ranking (see the conditions involving  $\alpha$  in Proposition 6). This may explain both the greater degree of “tabloidization” observed in TV news (and in other outlets) due not only to higher advertising premia paid, but also due to the availability of alternative news media for free. As readers have increasing options to obtain news online and from other outlets for free, and as advertisers have increasing options of putting their advertisements on alternative media, the traditional media outlets become more dependent on the (diminished) advertising as a source of revenue.<sup>24</sup> This can lead to both a larger news gap and to diminished audiences of such news outlets, as documented in Patterson (2000, 2013) and Prior (2007). We will return to this point in Section 4.2.

## 4 Extensions and Applications

We here discuss some extensions of the basic model that we use to study political economy implications of time-constrained readers.

### 4.1 Heterogeneity

One important and realistic form of heterogeneity concerns the case in which there are different outlets with different skipping costs. In particular, television would have a higher skipping cost compared to online media. Moreover, since television has existed for significantly longer, we would expect more consumers to be bookmarked on television, and that some consumers (for instance, of an older generation) would have higher costs of switching from television to online news.<sup>25</sup> We capture this case in a simple way with the following assumptions: there are two types of consumers (say type  $I$  and  $II$ ) that differ in the switching cost they incur when switching outlet ( $\nu_{SW}^I > \nu_{SW}^{II}$ ) and that have mass 1/2 each; there are two outlets with different skipping cost ( $\nu_{SK}^1 > \nu_{SK}^2$ ).<sup>26</sup> All readers are bookmarked on firm 1, to illustrate the idea that they all consume the same “old” medium (television),

<sup>24</sup>Strictly speaking, this corresponds to a case where the fee that can be charged to readers decreases or the reservation value at which the reader decides to not follow the news increases; both of which have the same effect in our model as an increase in  $\alpha$ .

<sup>25</sup>We are grateful to a referee for bringing up this case.

<sup>26</sup>Assuming fraction 1/2 of each type of the population is only to make the proposition simpler; it can easily be extended to different proportions.

but by incurring a type-dependent switching cost ( $\nu_{SW}^I$  or  $\nu_{SW}^{II}$ ) they have the possibility of switching to firm 2, which represents a “new” medium (online news) and which has a lower skipping cost.<sup>27</sup> The cut-offs for the skipping and switching cost are from Propositions 2 and 3, characterizing crowding out equilibria in the homogeneous case.

**Proposition 7 (Competition between heterogeneous outlets).** *Suppose there are two firms, where firm 1 has full market share ( $M_1 = 1, M_2 = 0$ ), and suppose that the premise of Proposition 2 holds, with  $m_B > 2$ . Suppose further that condition (10) of Proposition 2 holds for firm 1 ( $\nu_{SK}^1 \geq \frac{\sqrt{\lambda^A} - \nu_{RD}}{m_B}$ ), while the opposite holds for firm 2 ( $\nu_{SK}^2 < \frac{\sqrt{\lambda^A} - \nu_{RD}}{m_B}$ ). Then, if  $\nu_{SW}^I \geq \sqrt{\lambda^A} - \nu_{RD}$  and if  $\nu_{SW}^{II} < \sqrt{\lambda^A} - \nu_{RD}$ , then the unique equilibrium has firm 1 providing a reader-inefficient ranking with  $m_B$  stories of topic B first, while firm 2 provides the reader-efficient ranking with the story of topic A first. Moreover, the readers of type I remain on firm 1 and read the  $m_B$  stories of topic B, while the readers of type II switch to firm 2 and read the story of topic A.*

The proposition shows how there can be a separating equilibrium, with the less tech-savvy readers obtaining a reader-inefficient ranking, and the more tech-savvy readers obtaining a more efficient one. It suggests that such competition between outlets, when there is heterogeneity in consumers, can lead to a gap in what consumers read, even if they are aligned in their preferences, but differ only in their ease of accessing new technology.

More generally, the practice of placing important stories first may be explained by several factors, such as when there is uncertainty over the importance of the stories coming up, or when there is heterogeneity in reader preferences. There could be heterogeneity if, for instance, some readers are more time-constrained than others. In particular, if there is heterogeneity in the time cost, then the firms may provide important stories interspersed with the less important stories, so as not to dissuade the highly time-constrained readers from reading.

Although this is outside the scope of our model, we also note that when there is such heterogeneity, the extent to which firms prefer readers to have smaller or larger skipping costs is ambiguous. This is because larger skipping costs help the firms with the strategies above of introducing extra stories, but smaller skipping costs are also useful for the more time-constrained readers to stay on and read the stories they would prefer to read. In other words, in a more complex model in which firms had some technology for increasing the readers’ skipping costs, the firms’ use of this technology would depend on the extent of reader heterogeneity. Moreover, as competition is increased, we expect firms to be more limited in their ability to introduce technology that raises skipping costs.

## 4.2 Political Outcomes and Time-Constrained Voters

The results of Section 3 point to an important feature of the equilibrium rankings of our basic model, namely, that even a small direct utility difference compared to the reader-efficient ranking

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<sup>27</sup>Clearly, the same equilibrium is sustained with other assumptions on the bookmarks, for example, if the more tech-savvy readers are all or in part bookmarked on the outlet with the lower skipping cost.

can be associated with a very different set of stories read. When story informativeness is introduced, this observation implies that readers may acquire very different information from what they would prefer. In particular, they may read more (or watch more television) than they wish to, while being systematically *less* informed on relevant subjects. In a political economy setting with voting, this can have significant consequences due to informational externalities.

So far, we have not assumed any political bias in our model, and it is not required for the notion that readers may be systematically uninformed on politically important topics. But, to better study possible effects of time constraints of news consumption on voting decisions, we now explicitly introduce story content and politically biased firms.

**Media bias.** A large literature documents media bias and the degree to which, empirically, media firms systematically underreport or overreport on specific subjects (political or otherwise).<sup>28</sup> Throughout the paper, we have assumed away any biases on the part of both firms and readers. Allowing for bias, which may arise for many reasons, including for ideological or for product differentiation purposes, requires a simple change to the firms' profit function of Section 2. We extend it as follows:<sup>29</sup>

$$\Pi_i(\sigma) = \sum_{k \in K} \sum_{n \in S_k^i} \mu_n^{k,i}(\sigma) + \sum_{k \in K} \alpha_k^i \sum_{n \in S_k^i} \mu_n^{k,i}(\sigma) \lambda_n^k z_n^k,$$

where now  $z_n^k \in \{-1, 0, 1\} \times N \times K$  keeps track of the **content** of a story that, for simplicity, takes three values:  $-1$  for negative content,  $0$  for neutral content and  $+1$  for positive content. Accordingly,  $\alpha_k^i \in \mathbb{R}$  captures firm  $i$ 's bias for readers viewing stories on topic  $k$  weighted by newsworthiness and content. Recall that  $\mu_n^{k,i}(\sigma)$  is the share of the readership that firm  $i$  receives on topic  $k$ , and  $\lambda_n^k$  is newsworthiness. When  $\alpha_k^i = 0$  we recover the profit function of Section 2. Setting  $\alpha_k^i \neq 0$  indicates that firm  $i$  cares about which newsworthy stories consumers read. Newsworthiness  $\lambda_n^k$  becomes a proxy for the quantity of information received by the readers, while the content variable  $z_n^k$  refers to the intrinsic information, whether positive or negative, transmitted. Hence,  $\alpha_k^i > 0$  for topic  $k$  captures bias by firm  $i$  for content in one direction (in favor of positive news content on topic  $k$ ), and  $\alpha_k^i < 0$  captures a preference for content in the opposite direction.

This model therefore allows for political (or other) bias in the preferences of the firm. Note that, as in the rest of the paper, the firms' strategies consist only of a ranking the stories; we have not extended the model to allow for *slanting* the content of stories.<sup>30</sup> It is straightforward, then, to show that such preferences will influence the ranking of the stories as firms seek to systematically emphasize or de-emphasize information on specific issues. Maintaining the assumption that consumers are aware of this process and of firms' preferences, and that they are fully Bayesian rational, consumers still

<sup>28</sup>See Strömberg (2004) on political bias, Besley and Prat (2006) on government capture, Ellman and Germano (2009) on advertiser-driven bias, and Petrova (2012) on media capture by special interest groups. Blasco and Sobbrío (2012) and Prat and Strömberg (2013) contain recent surveys.

<sup>29</sup>See Ellman and Germano (2009) or Anderson and McLaren (2012) for microfoundations of related profit functions.

<sup>30</sup>Additional factors can be included in the firms' profit function, such as a preference for readership of specific topics. For instance, viewers may be more receptive to advertisements when viewing sports news. This can be done by multiplying the first term of the profit function by a parameter  $\beta_k^i$ , thus weighting readership according to the topic.

may not receive the stories and hence the information that they would like. Their posterior beliefs may be affected, even when they account for the firms' strategies. This shows that polarized beliefs may arise from firms' media bias.<sup>31</sup>

**Preferred news rankings and polarization of the news.** Consumers often prefer to read from outlets that share their views. For instance, in their empirical analysis of media slant, Gentzkow and Shapiro (2010) find strong evidence that readers have a preference for like-minded news. From an informational viewpoint, this preference has been viewed as puzzling, as it appears that readers have more to learn from reading news that does more than confirm their prior. Models have been developed to better understand these preferences, and have yielded valuable insight (Mullainathan and Shleifer, 2005, Gentzkow and Shapiro, 2006, Chan and Suen, 2008, and Sobbrío, 2014).

Our model provides a novel and intuitive explanation for readers to have a preference for like-minded outlets. Suppose that there is more than one firm to choose from, and that viewers do not have high switching costs. Moreover, suppose that readers have heterogeneous informational priors, (for example, arising from exposure to programs with different media slants as illustrated just above), then, whether or not there is also supply-driven heterogeneity in biases, the market outcome may be one of differentiation.<sup>32</sup> Readers prefer to obtain the news from the firm whose editorial policy is *closest* to their prior, as they believe that this firm will be more likely to rank on top (or less likely to “conceal”) information that is relevant for them. In other words, readers here self-select to acquire news from outlets that “share” their views not because they have a preference for information that supports their beliefs, but rather because they can more easily *access* stories of interest. This can contribute to further polarize political opinions. Combined with the increased fragmentation of media outlets mentioned above, it can explain part of the observed increase in polarization of audiences in the US and elsewhere (Prior, 2007, Pariser, 2011, Ladd 2012, Patterson, 2013).

**Knowledge gaps and voter turnout.** Prior (2007) studies *political knowledge gaps*, that is, differences in knowledge between different groups in the population about issues concerning politics and public affairs. He shows how such differences have increased over time in the US, especially, with the transition from the low choice media environments of the 70s to the high choice ones of the 80s with the advent of cable TV and again later with the advent of the internet. While in the low choice environments many viewers with lower education or weak interest in the news ended up consuming relatively large amounts of news on the side while watching regular entertainment programs, as more programming options became available with cable TV and the internet, such viewers became less

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<sup>31</sup>Patterson (2013) discusses how the elimination of the Fairness Doctrine by the FCC In 1987 paved the way for highly slanted political talk shows and other slanted radio or TV shows. [Another form of bias concerns when a biased source decides to release information, see \(Gratton, Holden and Kolotilin \(2018\)\).](#)

<sup>32</sup>A recent article in *The New Yorker* remarks: “MSNBC and Fox News often express their differing political priorities by covering different stories: Fox viewers, for instance, have learned an awful lot about the exploits of the New Black Panther Party, while MSNBC viewers were treated to a series of concerned segments about that Cheerios commercial, including an interview with one of the actors,” (*The New Yorker*, September 2013). Related to this point, Schroeder and Stone (2015) find that viewers of *Fox News* in the US are not less informed overall than average viewers, but appear to be better informed on topics favorable to Republicans.

exposed to news, leading to larger knowledge gaps as well as to lower voter turnout. Our model is consistent with these and other reasons why viewers may watch less news on TV. Specifically, network news ratings steadily declined since the 80s even for households that did not have access to cable TV or later to internet (Prior, 2007, pp. 98-102). Such a decline cannot be explained by viewers switching to cable TV or to the internet, but it can be explained using our model, as mentioned in Section 3.5, through the decreasing quality of the network newscasts (Patterson, 2000, 2013, Hamilton, 2004, Rosenstiel et al., 2007, Ladd, 2012, Bennett, 2016). At the same time, Prior’s model predicts an increased political knowledge gap following the advent of cable TV and of the internet, however, the increase in the knowledge gap mainly occurs in the case of the advent of cable TV (Prior, 2007, pp. 123-130). In our model, as discussed in Sections 3.5 and 4.1, even individuals with low or moderate interest in the news, somewhat tech-savvy, and who would therefore not view network news in a high choice environment (consistent with Prior’s model), may nonetheless obtain news online, since it is more efficiently presented than on radio or network TV. This is consistent with a smaller political knowledge gap even in a high choice environment with internet access.

**Public media.** The value of public media has been an intense subject of debate in recent years, even generating extensive attention during the 2012 US presidential campaign. As a further application of our benchmark model, suppose we add a *public media firm* that we assume maximizes the utility of the average reader (or viewer). With homogeneous readers, it is immediate that such a firm automatically chooses the reader-efficient ranking. Hence, if such a firm is present in the market and if switching costs are low enough, then *all* equilibria are reader-efficient. More importantly, when such an outlet is present in the market with other firms and with low reader switching costs, then *all* equilibria are reader-efficient.<sup>33</sup>

**Proposition 8 (Public media and reader efficiency).** *Suppose there are two media firms of which one is public, then there exists a  $\bar{\nu}_{SW} > 0$  such that, for any  $\nu_{SW} < \bar{\nu}_{SW}$ , every equilibrium is reader-efficient.*

Importantly, the presence of such an easily accessible public outlet does not imply that it captures the entire market from the other profit-maximizing firms. Rather, its presence changes the equilibrium itself: all firms choose to provide the reader-efficient ranking. The public outlet effectively sets a standard that other outlets adhere to.<sup>34</sup>

We emphasize, however, that public outlets in our setting, by assumption, maximize reader preferences. In practice, this may not always be the case, and the literature distinguishes among different ways in which public media are governed (Aalberg and Curran, 2012, and Cushion, 2012). In some cases, public media may place higher weight on public affairs than readers do, perhaps out of concern

<sup>33</sup>Recall that small switching costs do not, in general, guarantee reader-efficiency, as discussed in Section 3.2.

<sup>34</sup>Such a standard-setting role for public media is emphasized in Cushion (2012). A recent and growing literature on comparative studies of media systems in advanced democracies finds that a strong presence and funding of public media is associated with a higher level of knowledge of the general public, especially on public affairs issues (Aalberg and Curran, 2012, and Strömbäck, 2017).

for social efficiency; in others, they may have very different incentives. Arguably, public media that are paid directly by the consumers or that are funded with public money enforce some degree of accountability towards consumer preferences.

### 4.3 Uncertainty

Throughout the paper, we assumed one state of the world, for the sake of exposition. In practice, consumers may be uncertain about the state of the world in the sense that they do not know which stories (with respective newsworthiness) are available ex ante, but rather learn this as they consume the news. We here extend the model to allow for uncertainty in the state of the world.

Suppose that, on a given day, the true state of the world  $\omega$  can be identified with a realization of a set of stories,  $S(\omega) = S_A(\omega) \cup S_B(\omega)$ , on topics  $A$  and  $B$  with corresponding levels of newsworthiness  $\lambda$  just as before. The space of all possible states of the world can then be identified with a list of possible sets of stories  $\mathcal{S} = \{S(\omega) : \omega \in \Omega\}$ . Assume the number of possible stories and states, and hence  $\mathcal{S}$ , to be finite. There is a prior over the states of the world (formally,  $\pi \in \Delta(\Omega)$ ), which we assume to be commonly known.

In this setting, outlet  $i$ 's strategy is a map  $\sigma^i : \mathcal{S} \rightarrow \mathcal{P}_N$  that specifies a ranking of the stories for each state of the world. We can view a media outlet as having an editorial board that decides on a strategy (ex-ante) for displaying the news, for any given realization of state of the world. This strategy is public and commonly known. That is, each firm knows the other firm's strategy, as do the readers. In particular, the media outlets also know the state  $S$  as soon as it is realized, while the readers do not. The reasoning behind the common knowledge assumption is that a newspaper's editorial stance and presentation style are generally known to the public. Furthermore, while we focus on a single period, our model can be viewed as the reduced form of the repeated interaction that exists in reality, and that reinforces the common awareness of each outlet's editorial policy. Relaxing this assumption may accentuate the results obtained below.

The timing of the game is as before with Stage 1 replaced by the following:

**Stage 1.1** The media outlets simultaneously choose rankings  $(\sigma^i(S(\omega)))_{i \in I}$  of the stories for every state of the world  $\omega \in \Omega$ . These rankings (editorial policies) are known to all parties.

**Stage 1.2** Nature draws the state of the world  $\omega \in \Omega$  according to the prior  $\pi$ . The state is known to firms but not to consumers.

This leads to an extensive-form game of incomplete and imperfect information  $\Gamma_{ext}$  between media outlets and readers. Given media outlets' strategies in Stage 1.1 and given that consumers are individually negligible and independent of each other, consumers' expected demand continues to be well-specified and straightforward to derive. The game  $\Gamma_{ext}$  can again be reduced to a normal form game  $\Gamma$  between just the media outlets as before; again, a Nash equilibrium always exists.

Uncertainty can be beneficial to firms, as it provides them with an additional tool for attracting more readership. They can entice consumers to read stories that they would otherwise avoid, thereby

exacerbating the reader inefficiencies of Section 3. Intuitively, if media markets do not deliver the reader-efficient ranking when there is just a single state of the world, then a similar, and perhaps more pronounced, implication holds with uncertainty as well. This is also consistent with results from the empirical search literature (e.g., Jeziorski and Segal, 2015).

As an illustration of these ideas, we return to the simple setting of a monopoly, with stories of topic  $A$  and linear costs, discussed in the first half of Section 3.1. Adding uncertainty to the possibility of the existence of the more newsworthy story to occur, then the following proposition holds.

**Proposition 9 (Story uncertainty).** *Let  $\Gamma_{ext}$  be a game where readers have utility function  $u_A(x) = x$  and cost function  $c(\tau) = \tau$ , and suppose the switching cost ( $\nu_{SW}$ ) is prohibitively large. Suppose there is a probability  $\pi \in [0, 1]$  of having a story  $s_h$  on topic  $A$  of newsworthiness  $\lambda_h > \nu_{RD}$ , implying that the reader would wish to read it if it were available. Suppose that there is a story  $s_l$  of  $\lambda_l < \nu_{RD}$ , and that  $\lambda_l > \max\{2\nu_{RD} - \lambda_h, \nu_{RD} - \nu_{SK}\}$ , as in Condition (8) of Proposition 1, for  $m_h = 1$ . Then, there is a threshold  $\bar{\pi} = \frac{\nu_{RD} - \lambda_l}{\lambda_h - \nu_{RD}} \in (0, 1)$  such that for  $\pi \geq \bar{\pi}$ , in equilibrium, the firm always places story  $s_l$  first, so that the reader reads  $s_l$  and  $s_h$  if both are available, and reads only  $s_l$  if  $s_h$  is not available. For  $\pi < \bar{\pi}$ , in equilibrium the firm always places story  $s_h$  first, when it is available, and the reader reads only this story.*

In words, this proposition states that if a newsworthy story is likely enough to be available ( $\pi \geq \bar{\pi}$ ), the firm can induce the reader to consume a not newsworthy story that he would have preferred not to read, even if in the end a newsworthy story is not available that day; the hope of getting to a newsworthy story is sufficiently high for the reader to read the other story. If instead, it is unlikely that there is a newsworthy story ( $\pi < \bar{\pi}$ ), then, when available, the firm places such a newsworthy story at the top of the ranking. Otherwise the reader would not consume it and stop reading early on. While this is of course a simplified scenario, we believe that such mechanisms are present in the manner in which firms provide stories. Readers who expect a good story with high enough likelihood can at times be made to wait for it. In contrast, rare, unexpected stories are often placed at the top of the headlines. We also note that similar mechanisms hold in the case of competition and crowding out of stories as well, but for the sake of brevity we do not pursue these in this paper.

## 5 Concluding Remarks

The market for news is increasingly dominated by digital and online media that offer readers access to overwhelming amounts of information through extraordinarily flexible menus of options.<sup>35</sup> To study this market, we have developed a framework in which media firms rank the stories of the day, while consumers access them by browsing through the given menus of choices. This provides a unifying

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<sup>35</sup>Costera Meijer and Groot Kormelink (2015) discuss a variety of user practices of processing the news that current media technology allows for, such as reading, watching, listening, searching, checking, monitoring, scanning, or more participatory ones such as linking, sharing, liking, recommending, commenting or voting. Our approach shows how many of these can be incorporated into a formal decision-theoretic framework, and how the associated time costs may be a relevant factor explaining their usage and the resulting news consumption.

framework that accommodates diverse types of news outlets, including radio and television or online newspapers and social media platforms, and that captures differences between media types through the time costs of accessing and processing the information offered.

We find that, although small when taken individually, these costs, together with the preferences and the time constraints of the individuals, can play a crucial role in determining overall equilibrium news market behavior. Consumers may spend more time consuming news than they would prefer to; they may read or view more stories than they would prefer to; and the stories they read may not include some of the stories they would actually prefer to read. Besides the costs of processing the news, the crucial factors driving this misalignment between equilibrium and reader-efficient rankings are the shapes of individuals' time cost and utility functions as well as the firms' objective functions, which in our model maximize the volume of stories read by the readers.

The model offers a fresh look at several key problems facing the current news media environment. It can explain why increasingly many stories on crime, accidents and celebrity scandals are present in TV newscasts, leading to what has been termed the "tabloidization" of the news, even when, according to many surveys, such tabloidization often puts off consumers from consuming the news and is often associated with a perceived decreasing quality of news coverage by most consumers. The model can also explain how news outlets may specialize and give more importance to stories with a certain slant, while crowding out others with an opposite slant, thereby contributing to the observed increased polarization of the coverage of political news. Ladd (2012) documents how the trust in US news media has declined sharply over several decades in the US and singles out both the tabloidization and the polarization of the news as two key driving factors. Prior (2007) and Patterson (2013) show how the loss of important segments of the audience that have turned away from network news and switched to other outlets for entertainment and news has contributed to an increasing political knowledge gap and lower voter turnout and participation in politics.

An important advantage of our model is that it allows us to incorporate various aspects of the current news media environment that have so far not been taken into account. In particular, it allows for a rich and flexible framework in which to perform structural estimation.<sup>36</sup> This might help disentangle and identify the various sources of observed tendencies of tabloidization and polarization of the news. It may also shed light on the associated trends of the perceived decline in the quality of news coverage and of the resulting shrinking numbers of people closely following the news. A better understanding of this is crucial for improving the quality of our democracies.

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<sup>36</sup>As an example, using data on individual-level TV consumption during newscasts in the US, our framework can be applied to obtain estimates for individuals' preferences for different topics and advertisements, as well as for the time costs.

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# Appendix

## A Readers' preferences

**Readers' maximization problem as a Bellman equation.** The main text considers the reader's maximization problem from period 0 for the entire subsequent periods, and chooses his action at each period accordingly. The reader is dynamically consistent, and so this suffices for our analysis. The reader's problem can alternatively be written as a Bellman equation, as we now show. Define, for each period  $t$ , and for any  $v_k(x_t^k|H_{t-1}) = \Delta u_k(x_t^k, x_{t-1}^k|H_{t-1}) = u_k(x_t^k) - u_k(x_{t-1}^k)$  and  $\gamma(\tau_t|H_{t-1}) = \Delta c(\tau_t, \tau_{t-1}|H_{t-1}) = c(\tau_t) - c(\tau_{t-1})$ .

Then, the agent's Bellman equation, at any period  $t$ , given observed headline  $s_t^k$ , can be written as:

$$U_t(s_t^k) = \max_{\{RD, SK, SW, ST\}} \{v_k(x_{t-1}^k + \lambda(s_t^k)|H_{t-1}) - \gamma(\tau_{t-1} + \nu_{RD}|H_{t-1}) + U_{t+1}(s_{t+1}^k), \\ v_k(x_{t-1}^k|H_{t-1}) - \gamma(\tau_{t-1} + \nu_{SK}) + U_{t+1}(s_{t+1}^k), \\ v_k(x_{t-1}|H_{t-1}) - \gamma(\tau_t + \nu_{SW}|H_{t-1}) + U_{t+1}(s'), \\ 0\}$$

where  $s'$  is the first unaccessed story of the outlet that the reader would switch to. Note that the last term in the maximization function, which corresponds to the action  $ST$ , is 0 because  $v_k(x_{t-1}^k|H_{t-1}) - \gamma(\tau_{t-1}|H_{t-1}) = 0$ .

**Reader demand and existence of a Nash Equilibrium.** The following lemma allows us to reduce the original extensive form game  $\Gamma_{ext}$  to a standard finite normal form game  $\Gamma$ . This readily implies existence of a Nash equilibrium.

**Lemma 1 (Reader demand).** *Let  $\sigma = (\sigma^i)_{i \in I}$  be a strategy profile of firm rankings in stage 1; then there exists a function,  $\mu_n^{k,i}$ , that associates to each such profile the expected mass of readers going to an outlet  $i$  on given story  $s_n^k$  of any given topic  $k$ ,  $n \in \mathbb{N}, k \in K$ .*

*Proof.* Fix a strategy profile of stage 1,  $\sigma = (\sigma^i)_{i \in I}$ , then the continuation game can be viewed as a separate and independent decision problem for each individual. Although the continuation game is, strictly speaking, of imperfect and incomplete information (as consumers do not necessarily know the state of the world, or what other consumers are choosing), because the consumers' payoffs are independent of each others' strategies, the subgame starting after the media firms' strategy choices can be viewed as consisting of separate decision trees that can be solved independently from one another. Furthermore, when costs are positive,  $\nu_{SK}, \nu_{SW}, \nu_{RD} > 0$ , (recall, that by assumption,  $\nu_{RD} > 0$ ), finiteness of the number of states, the number of stories in each possible state, and the number of actions at any choice node, and the fact that all individuals are Bayes rational with a common prior over the possible states of the world, and have strictly increasing time costs  $c(\cdot)$ , insures that each decision tree is finite with an initial move by nature determining the state of the world. Hence it is solvable by backward induction. When costs can be zero, then consumers can in principle choose infinite sequences of, e.g., skipping stories or switching outlets (by assumption,  $c(N\nu_{RD}) > \sum_{k \in K} u_k(\sum_{s^k \in S} \lambda(s^k))$ , for any  $S \in \mathcal{S}$ , so that readers will always only read a finite number of stories). However, it is easy to see that once the readers have identified the state of the world, then there is no gain in further skipping and switching beyond that of

reaching the stories that it is optimal to read. But this requires only finitely many skips and switches and so is solvable by backward induction, for general  $0 \leq \nu_{SK} \leq \nu_{RD}, 0 \leq \nu_{SW}$ . The corresponding solutions obtained (restricting to ones with no “redundant” skips or switches if necessary) yield a compact and convex set of the possible expected mass of readers, for each possible strategy profile of stage 0, for which a selection with the desired properties always exists.  $\square$

This selection readily implies a choice of stories to read on any given topic and from any given outlet, for each reader, and in particular yields functions  $\mu_n^{k,i}$ . Given this, existence of a Nash equilibrium in  $\Gamma$  follows immediately from the finiteness of the number of stories and of their possible rankings, as well as of the number of states, and hence of the firms’ strategies.

## B Proofs

**Proof of Proposition 1.** We derive Conditions (8) and (9) for the slightly more general case of  $\tilde{c}(\tau) = \kappa \cdot \tau$ , for  $\kappa \geq 1$ , so as to also cover the statements on more time-constrained consumers stated in footnote 19. To see necessity of Condition (8). For  $m_h$  stories of newsworthiness  $\lambda_h$  and one of newsworthiness  $\lambda_l$  to be read, we need:

$$m_h \lambda_h + \lambda_l - \kappa \cdot (m_h + 1) \nu_{RD} \geq 0 \iff \lambda_l \geq \kappa \cdot (m_h + 1) \nu_{RD} - m_h \lambda_h.$$

For the story  $s_l$  not to be skipped, we need:

$$m_h \lambda_h + \lambda_l - \kappa \cdot (m_h + 1) \nu_{RD} \geq m_h \lambda_h - \kappa \cdot (\nu_{SK} + m_h \nu_{RD}) \iff \lambda_l \geq \kappa \cdot (\nu_{RD} - \nu_{SK}).$$

Combining the two, we get:

$$\lambda_l \geq \max\{\kappa \cdot (m_h + 1) \nu_{RD} - m_h \lambda_h, \kappa \cdot (\nu_{RD} - \nu_{SK})\}, \quad (18)$$

which for  $\kappa = 1$  is exactly Condition (8). Given the assumptions of Proposition 1, it is obviously also sufficient.

The maximum number of stories  $m_l$  of newsworthiness  $\lambda_l$  that can be inserted, if there are  $m_h$  stories of newsworthiness  $\lambda_h$  has to satisfy:

$$m_h \lambda_h + m_l \lambda_l - \kappa \cdot (m_h + m_l) \nu_{RD} \geq 0 \iff m_l \leq \frac{m_h(\lambda_h - \kappa \cdot \nu_{RD})}{\kappa \cdot \nu_{RD} - \lambda_l} \implies m_l = \lfloor \frac{m_h(\lambda_h - \kappa \cdot \nu_{RD})}{\kappa \cdot \nu_{RD} - \lambda_l} \rfloor, \quad (19)$$

which, for  $\kappa = 1$ , gives exactly Condition (9).

Finally, to see the statement in footnote 19 (after Proposition 1), comparing the Conditions (18) and (19) for  $\kappa > 1$  with  $\kappa = 1$ , it suffices to note that the RHS of (18) is strictly increasing in  $\kappa$ , (implying  $\tilde{\lambda}_l > \lambda_l$ ), while the final expression for  $m_l$  in (19) is strictly decreasing in  $\kappa$ , (implying  $\tilde{m}_l < m_l$ ).  $\square$

**Proof of Proposition 2.** We first confirm that the agent’s preference is to read exactly one story of topic  $A$  and none of topic  $B$ . Reading one story of topic  $A$  provides utility  $\lambda^A - \nu_{RD}^2 > \nu_{RD}^2 - \nu_{RD}^2 = 0$ , and so is preferable to reading no stories. It is also preferable to reading  $m_A \geq 2$  stories of topic  $A$  since  $\lambda^A - \nu_{RD}^2 > m_A \lambda^A - (m_A \nu_{RD})^2$  holds if  $\lambda^A < \frac{(m_A^2 - 1) \nu_{RD}^2}{m_A - 1} = (m_A + 1) \nu_{RD}^2$ . To see the latter, recall that by assumption  $\lambda^A < 3 \nu_{RD}^2$ , and hence  $\lambda^A < (m_A + 1) \nu_{RD}^2$  for any  $m_A \geq 2$ . Reading one story of topic  $A$  is also clearly preferred to reading any story of topic  $B$ , which always provides a net utility of zero. The reader will also not read any stories of topic  $A$

combined with topic  $B$ . This is because, for any  $m'_A \geq 1$ ,  $m'_B \geq 1$ ,

$$\begin{aligned} m'_A \lambda^A + (m'_B \lambda^B)^2 - ((m'_A + m'_B) \nu_{RD})^2 &< m'_A (3\nu_{RD}^2) + (m'_B)^2 \nu_{RD}^2 - (m'_A)^2 \nu_{RD}^2 - (m'_B)^2 \nu_{RD}^2 - 2m'_A m'_B \nu_{RD}^2 \\ &\leq m'_A \nu_{RD}^2 (3 - m'_A - 2m'_B) \leq 0, \end{aligned}$$

since for  $m'_A \geq 1$  and  $m'_B \geq 1$ , the term  $3 - m'_A - 2m'_B \leq 0$ .

This shows that the firm cannot induce the reader to read both his preferred story of topic  $A$  and additional stories of topic  $B$ . Therefore, if the firm has  $m_B > 1$  stories of newsworthiness  $\lambda^B = \nu_{RD}$  available, then, if the firm places them first and the reader does not skip them, then the reader will only read those stories and none from topic  $A$ . The total utility of doing so for the reader will be  $(m_B \nu_{RD})^2 - (m_B \nu_{RD})^2 = 0$ , and so the reader would read them by assumption (recall that we assume that when the reader is indifferent, he chooses the plan that is preferred by the firm; alternatively, we could assume that  $\lambda^B$  is slightly above  $\nu_{RD}$ , which would leave the result unchanged). This is the firm-optimal strategy provided that the reader does not skip these stories to read his preferred one.

Given this, we now show that Condition (10) is necessary and sufficient for this to be the unique optimal strategy. First, we show that the reader will not skip  $\tilde{m}_B < m_B$  stories of topic  $B$  to then read the remaining  $m_B - \tilde{m}_B$  stories of topic  $B$  and the remaining one of topic  $A$ , as his utility would not be positive. In particular, the lower bound of  $\nu_{SK} = 0$  allows the reader to skip at no cost. By the previous argument, the reader will still not wish to read both stories of topic  $B$  and one of topic  $A$ , as his utility will be negative. Hence, for any higher skipping cost  $\nu_{SK} > 0$ , the reader will not skip some stories of topic  $B$  and read others (in addition to  $A$ ) either, as his utility will be even lower. It remains only to show that the reader will not skip *all*  $m_B$  stories to then read his preferred story on  $A$ . This is so because it gives the reader a utility level:

$$\lambda^A - (m_B \nu_{SK} + \nu_{RD})^2 \leq (m_B \nu_{RD})^2 - (m_B \nu_{RD})^2 = 0 \iff \lambda^A \leq (m_B \nu_{SK} + \nu_{RD})^2$$

where the latter holds if and only if Condition (10) holds.

Finally, note also that the difference in utility between the reader-efficient outcome and the crowding out equilibrium is at most:

$$(\lambda^A - (\nu_{RD})^2) - ((m_B \lambda^B)^2 - (m_B \nu_{RD})^2) = \lambda^A - (\nu_{RD})^2 \leq (m_B \nu_{SK} + \nu_{RD})^2 - (\nu_{RD})^2,$$

which goes to zero as  $\nu_{SK} \rightarrow 0$ . □

**Proof of Extension of Proposition 2.** The proof for the case  $u_A(x) = x^n$ ,  $u_B(x) = x^m$  and  $c(\tau) = \tau^m$ , where  $m > n > 0$ , and  $m > 1$ ,  $\lambda^A \in (\nu_{RD}^{m/n}, \frac{(2\nu_{RD})^{m/n}}{2})$ , and the rest as in Proposition 2, is similar to the proof just above. First, we show that, as before, the reader's preference is to read exactly one story of topic  $A$ . His utility with one such story is positive, since  $(\lambda^A)^n - \nu_{RD}^m > (\nu_{RD}^{m/n})^n - \nu_{RD}^m = 0$ . Hence it is preferable to not reading at all. Moreover, he would not read two or more stories of topic  $A$ , since  $(m_A \lambda^A)^n - (m_A \nu_{RD})^m < 0$ , if  $\lambda^A < \frac{(m_A \nu_{RD})^{m/n}}{2}$ , which holds for  $m_A = 2$  by assumption, and therefore holds for all  $m_A > 2$  as well. Moreover, since the reader prefers not reading at all to reading two or more stories of topic  $A$ , he also prefers not reading at all than reading one or more stories of topic  $A$  and one or more stories of topic  $B$ . Since  $m > 1$  and the benefit of a story  $B$  does not outweigh the cost, the maximum attainable utility with one story of each topic being read, is  $(\lambda^A)^n + (\lambda^B)^m - (2\nu_{RD})^m = (\lambda^A)^n + (\nu_{RD})^m - (2\nu_{RD})^m$ . This term is negative if  $(\lambda^A)^n < (\nu_{RD})^m (2^m - 1)$ . We know that  $(\lambda^A)^n < \frac{(2\nu_{RD})^{m/n}}{2} = 2^{m-n} \nu_{RD}^m < (\nu_{RD})^m (2^m - 1)$  if  $2^{m-n} < 2^m - 1$ ,

which holds if  $1 < 2^m - 2^{m-n}$ . Since  $m > n$ , the lower bound of the equation on the right is  $2^m - 1$ , and since  $m > 1$ ,  $2^m - 1 > 1$ . Hence, the utility of reading one story of each topic is negative, and the reader will prefer not to read any stories.

Hence, if the firm places  $m_B > 1$  stories of newsworthiness  $\lambda^B = \nu_{RD}$ , the reader would read them if he does not skip them, and it would be the firm's unique optimal strategy to do so. We now show that  $\nu_{SK} \geq \frac{(\lambda^A)^{n/m} - \nu_{RD}}{m_B}$  is necessary and sufficient for these stories not to be skipped. First, by the previous argument, the reader would not skip  $\tilde{m}_B < m_B$  of topic  $B$  and then read  $m_B - \tilde{m}_B$  of topic  $B$  and a story of topic  $A$  since his utility would be negative, even if  $\nu_{SK} = 0$ . He therefore skips the stories of topic  $B$  to read a topic  $A$  story only if he skips all  $m_B$  stories. This would give the reader a utility of:

$$(\lambda^A)^n - (m_B \nu_{SK} + \nu_{RD})^m \leq (m_B \nu_{RD})^m - (m_B \nu_{RD})^m = 0 \iff \nu_{SK} \geq \frac{(\lambda^A)^{n/m} - \nu_{RD}}{m_B},$$

which concludes the proof.  $\square$

**Proof of Proposition 3.** To guarantee crowding out, in which all firms place all  $m_B$  stories of topic  $B$  before topic  $A$ , as an equilibrium, it must be that (i) the readers do not have an incentive to switch and (ii) that neither firm has an incentive to deviate (recall that the conditions of the last proposition are taken to hold, implying that the reader will not skip any number of stories of topic  $B$  to then read the story of topic  $A$ ). With regard to (i), since both firms are providing the same strategy over the relevant domain, the reader has no incentive to switch unless a firm changes strategy. With regard to (ii), we first note that the only deviations that a firm would consider is to put the story of topic  $A$  first. This is because, as shown in the proof of the last proposition, the reader will never read stories of topic  $A$  combined with stories of topic  $B$ . Hence by not placing story of topic  $A$  first, the firm strictly loses profit.

When a firm places the story of topic  $A$  first then this strictly lowers its profit from its original share of the market ( $M_i$ ), and can therefore only be a profitable deviation if it leads to a high enough capture of the other firm's original share of the market. For this to occur, two conditions need to be satisfied. First, the switching cost must be low enough for the readers of the other firm to switch, i.e.,  $\lambda^A - (\nu_{SW} + \nu_{RD})^2 > 0$ , or equivalently,  $\nu_{SW} < \sqrt{\lambda^A} - \nu_{RD}$  (recall that if indifferent, the reader chooses the action that favors the current outlet and does not switch). Second, the deviation profit must be strictly greater than the non-deviation profit, i.e.,  $1 > M_i m_B$  for firm  $i$ , where the LHS corresponds to the deviation profit, and  $M_i m_B$  corresponds to the non-deviation profit (share of the market  $M_i$  multiplied by number of stories  $m_B$  read per reader). Equivalently,  $m_B < 1/M_i$  for each firm  $i$ . Note that the first condition above cannot hold if Condition (12) holds, and the second cannot hold if Condition (11) holds. Therefore, if Condition (11) or (12) holds then the crowding-out equilibrium exists. Moreover, if neither of them holds then a crowding-out equilibrium would not exist, since one of the firms will deviate.

Finally, notice that, with a second firm, if Condition (12) does not hold, then the reader-efficient equilibrium exists as well, since the firm which deviates to the crowding out strategy of placing all  $m_B$  stories first will lose its market share. However, if Condition (12) does hold, then the only equilibrium that exists is the crowding-out equilibrium. For any other strategy, a firm would deviate to the crowding-out strategy, as the readers would not switch to the other firm, and the firm would obtain a higher profit.  $\square$

**Proof of Extension of Proposition 3.** The proof for the case  $u_A(x) = x^n$ ,  $u_B(x) = x^m$  and  $c(\tau) = \tau^m$ , where  $m > n > 0$ ,  $m > 1$ ,  $\lambda^A \in (\nu_{RD}^{m/n}, \frac{(2\nu_{RD})^{m/n}}{2})$ , and Condition (12) is replaced with  $\nu_{SW} \geq (\lambda^A)^{n/m} - \nu_{RD}$ , which we denote in this proof as Condition (12'), and the rest is as in Proposition 3, is nearly identical to the

one above, and so it will not be repeated. The only difference concerns when it is the case that the readers would switch to a firm if it were to provide the reader-efficient ranking, while the other does not. This would be if  $(\lambda^A)^n - (\nu_{SW} + \nu_{RD})^m > 0$ , or equivalently,  $\nu_{SW} < (\lambda^A)^{n/m} - \nu_{RD}$ , which cannot occur if Condition (12') holds. The rest of the proof is the same, after replacing Condition (12) with (12').  $\square$

**Proof of Proposition 4.** We first show that for  $\alpha > \nu_{RD} - \lambda_l$ , the same reader-inefficient equilibria remain as the only equilibria. First, under reader-inefficiency (with all  $m_l$  stories of newsworthiness  $\lambda_l$  placed before the  $m_h$  stories of newsworthiness  $\lambda_h$ ), the price set by the firm is:

$$\hat{p}^i = m_h \lambda_h + m_l \lambda_l - (m_h + m_l) \nu_{RD} = m_h (\lambda_h - \nu_{RD}) + m_l (\lambda_l - \nu_{RD}), \quad (20)$$

which is the maximum surplus that it can extract, since it sets the reader's utility to 0. Recall that since we are maintaining the conditions of Proposition 1, the reader would not skip stories in any case. The firm would then obtain a profit of  $\alpha(m_h + m_l) + \hat{p}^i$ .

Instead, if the firm chooses to only place a subset consisting of  $\tilde{m}$  stories of newsworthiness  $\lambda_l$  on top, where  $0 \leq \tilde{m} < m_l$ , it would set the price:

$$\tilde{p}^i = m_h \lambda_h + \tilde{m} \lambda_l - (m_h + \tilde{m}) \nu_{RD} = m_h (\lambda_h - \nu_{RD}) + \tilde{m} (\lambda_l - \nu_{RD}), \quad (21)$$

obtaining profit  $\alpha(m_h + \tilde{m}) + \tilde{p}^i$ . Given this, the reader-inefficient equilibria remain profit-maximizing if:

$$\begin{aligned} \alpha(m_h + m_l) + \hat{p}^i > \alpha(m_h + \tilde{m}) + \tilde{p}^i &\iff \alpha m_l + \hat{p}^i > \alpha \tilde{m} + \tilde{p}^i \iff (m_l - \tilde{m})\alpha > \tilde{p}^i - \hat{p}^i \\ &\iff (m_l - \tilde{m})\alpha > m_h (\lambda_h - \nu_{RD}) - m_l (\nu_{RD} - \lambda_l) - m_h (\lambda_h - \nu_{RD}) + \tilde{m} (\nu_{RD} - \lambda_l) \\ &\iff (m_l - \tilde{m})\alpha > (m_l - \tilde{m})(\nu_{RD} - \lambda_l) \iff \alpha > \nu_{RD} - \lambda_l. \end{aligned}$$

This is precisely the condition that we have assumed for the case of reader-inefficient equilibria.

If instead  $\alpha \leq \nu_{RD} - \lambda_l$ , then the reader-efficient ranking is optimal. To see this, note first that the case  $\tilde{m} = 0$  corresponds to the reader-efficient ranking, where the  $m_h$  stories of newsworthiness  $\lambda_h$  are placed first, and hence, for reader-efficiency, from Equation (21) above with  $\tilde{m} = 0$ , the price chosen by the firm would be  $\bar{p}^i = m_h (\lambda_h - \nu_{RD})$ . Therefore, we have that, for any  $0 < \tilde{m} \leq m_l$ :

$$\begin{aligned} \alpha m_h + \bar{p}^i \geq \alpha(m_h + \tilde{m}) + \tilde{p}^i &\iff \bar{p}^i - \tilde{p}^i \geq \alpha \tilde{m} \\ &\iff m_h (\lambda_h - \nu_{RD}) - m_h (\lambda_h - \nu_{RD}) - \tilde{m} (\lambda_l - \nu_{RD}) \geq \alpha \tilde{m} \iff \nu_{RD} - \lambda_l \geq \alpha, \end{aligned}$$

which is the original assumption made. This concludes the proof.  $\square$

**Proof of Proposition 5.** Suppose first that  $\alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ . Then, to see that all equilibria must have the reader-efficient ranking with price  $p^i = \lambda^A - \nu_{RD}^2$ , note that profits are  $\alpha + \lambda^A - \nu_{RD}^2$ . The price is the highest the firm can set as it is the maximum reader surplus that can be extracted. If instead the firm provides the inefficient ranking, then its profits are  $\alpha m_B$ , since it can at most charge a price of 0. But then

$$\alpha + \lambda^A - \nu_{RD}^2 \geq \alpha m_B \iff \alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1},$$

shows that the efficient ranking is always optimal in this case. (This also shows that, when  $\alpha = \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ , then both the efficient and the inefficient rankings can be sustained in equilibrium.)

Suppose now  $\alpha > \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ . If Condition (10) holds, then, using the same arguments as in the proof of Proposition 2, it is easy to see that only the crowding-out ranking can be optimal, and again the maximum price that can be charged is  $p^i = 0$ . Similarly, Condition (10) is also necessary to ensure that readers do not want to skip any of the  $m_B$  stories on topic  $B$ .  $\square$

**Proof of Proposition 6.** Suppose there are two firms with market shares  $0 < M_1, 1 - M_1 < 1$ , and that all the conditions of Proposition 2 hold. We distinguish three cases that prove the three statements of the proposition in reverse order.

Case 1. Suppose first that  $\alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ . Then to see that all equilibria must have the reader-efficient ranking, suppose a firm provides the inefficient ranking then its profits are  $M_i \alpha m_B$ . If it switches to a reader-efficient ranking charging just below the monopoly price, then regardless of what the other firm does, its profits will be  $M_i(\alpha + \lambda^A - \nu_{RW}^2)$ . But then

$$M_i(\alpha + \lambda^A - \nu_{RW}^2) \geq M_i \alpha m_B \iff \alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1},$$

shows that the inefficient ranking cannot be optimal. Given this it is easy to see that all equilibria involve the reader-efficient ranking and, moreover, because of the switching cost, also involve some randomization of prices (that becomes degenerate at  $p^i = 0$  when  $\nu_{SW} \rightarrow 0$ ). To see that there will be some randomization, notice first that, if both firms charge the monopoly price  $p^i = \lambda^A - \nu_{RW}^2$ , then the firm with the smaller market share has an incentive to lower its price and attract all consumers. Next, if both firms charge the same price (below monopoly level)  $p_1 = p_2 < \lambda^A - \nu_{RW}^2$ , then both firms have an incentive to charge a slightly higher price without losing consumers due to the switching cost. Existence of an equilibrium in mixed strategies with respect to prices follows from standard arguments (Dasgupta and Maskin, 1986).

Case 2. First we show that if  $\alpha > \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$  and Condition (12) of Proposition 3 hold, then only crowding out equilibria occur. Consider the firms' strategies in which they each rank the  $m_B$  stories of topic  $B$ , before the one on topic  $A$ , and charge  $p^i = 0$ . Following the logic of Proposition 3, we know that the readers have no incentive to switch outlet (recall from previous propositions that the readers have no incentives to skip stories to read the one on topic  $A$ , or to read the one on topic  $A$  after the others). Moreover, even if firms provided the reader-efficient ranking for free, the readers would only switch if  $\lambda^A - (\nu_{RD} + \nu_{SW})^2 > 0$ , or  $\nu_{SW} < \sqrt{\lambda^A} - \nu_{RD}$ , which would contradict Condition (12). Concerning the firms, as in Proposition 3, their only possibly profitable deviation would be to put the story of topic  $A$  first, because the readers would not read stories of topic  $A$  unless it is provided first. Note that the firms would not capture any additional market share. If they were to do so, then they would charge all the net utility surplus, which is  $\lambda^A - \nu_{RD}^2$ . Hence, this would be a profitable deviation only if  $M_i(\alpha + (\lambda^A - \nu_{RD}^2)) \geq M_i \alpha m_B$ , noting that the price must be 0 if the firms do not deviate, since the readers have 0 net utility. But this holds only if  $\alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$ , which contradicts our condition above. Hence, firms have no incentives to deviate, and so the crowding out ranking is indeed an equilibrium, with price set at 0, since the reader's net utility is 0. Moreover, note that there can only be crowding out equilibria, since the firm makes higher profit, and so for any reader-efficient ranking, the firm would have an incentive to deviate to the crowding out ranking.

Second, we show that if only the crowding out equilibria occur, then  $\alpha > \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$  and Condition (12) must also hold. Recall from Case 1 that  $\alpha \leq \frac{\lambda^A - \nu_{RD}^2}{m_B - 1}$  implies that an efficient equilibrium always exists. To see that also Condition (12) is necessary, recall the argument from Proposition 3 above that if (12) does not hold, then again the efficient ranking is sustainable as the deviating firm would lose its market share.

Case 3. Given the above, it remains to show that, if  $\alpha > \max\left\{\frac{\lambda^A - \nu_{RD}^2}{m_B - 1}, \frac{\lambda^A - \nu_{RD}^2 - \nu_{SW}}{m_B M - 1}\right\}$ , then a crowding out equilibrium always exists. In particular, we only need to consider the case when Condition (12) does not hold, since the other case was already treated above. Note that without Condition (12), there is no longer a guarantee that readers would not switch if firms change strategy. Suppose that a firm does switch from providing a crowding-out ranking to providing the reader-efficient one. For the readers to switch, the highest price that the firm can charge must be such that the reader obtain at least 0 (this is the net utility of not switching). That is,  $\lambda^A - (\nu_{RD} + \nu_{SW})^2 - p'_i = 0$ , and so  $p'_i = \lambda^A - (\nu_{RD} + \nu_{SW})^2$  (note that since Condition (12) does not hold,  $p'_i > 0$ ). The firm would then obtain all the market, and it will be a profitable deviation (we only consider the firm with the smallest market share  $M = \min\{M_1, 1 - M_1\}$ , which will have the more binding condition) if  $\alpha + p'_i = \alpha + (\lambda^A - (\nu_{RD} + \nu_{SW})^2) \geq \alpha m_B M$ , or, rearranging,  $\alpha \leq \frac{\lambda^A - (\nu_{RD} + \nu_{SW})^2}{m_B M - 1}$ . This violates the condition above. Hence, the crowding out equilibrium exists, and again the price is set at 0.  $\square$

**Proof of Proposition 7.** Firm 1 has a dominant strategy of providing the reader inefficient ranking stories with  $m_B$  stories of topic  $B$  first, since it receives profit  $m_B/2$  even if it loses all the type  $II$  readers (note that type  $I$  readers will not switch to firm 2 even if it provides the reader efficient ranking), compared to a profit of 1 if it kept all readers and provided the reader-efficient ranking, and since  $m_B > 2$ ,  $m_B/2 > 1$ . At the same time, firm 2 has a dominant strategy of providing the reader-efficient ranking, since it would capture all the type  $II$  readers and hence receive a profit of  $1/2$ , compared to 0 if it provided a reader-inefficient ranking, since the readers would not switch. The readers of type  $I$  then stay on outlet 1 and read the  $m_B$  stories of topic  $B$ , and the readers of type  $II$  switch to outlet 2 and read the story of topic  $A$ . This equilibrium is clearly unique, since both firms are following their dominant strategy.  $\square$

**Proof of Proposition 8.** By continuity of readers' cost and utility functions, it suffices to show the case  $\nu_{SW} = 0$ . Suppose that there are two outlets of which one is public and the other is a standard outlet with expected profits, as defined in Section 2. By assumption, the public outlet has a dominant strategy to choose a reader-efficient ranking. With  $\nu_{SW} = 0$ , the other outlet can retain its bookmarked audience only if it also offers a reader-efficient ranking (it cannot take audience away from the public outlet). This constitutes a Nash equilibrium, as both firms retain their audience and cannot improve their payoff by deviating.  $\square$

**Proof of Proposition 9.**

We first note that, as in Proposition 1, the reader never has an incentive to skip a story. If it has newsworthiness  $\lambda_h$ , then he reads it, and if it has newsworthiness  $\lambda_l$ , then he prefers to read it than to skip it, provided  $\lambda_l - \nu_{RD} \geq \nu_{SK}$  ( $\iff \lambda_l \geq \nu_{SK} - \nu_{RD}$ ), which holds by assumption.

Now, if the firm places a story of newsworthiness  $\lambda_l$  before that of newsworthiness  $\lambda_h$  (if it exists), then the readers would read it, and then read the one of newsworthiness  $\lambda_h$ , if it exists, and otherwise stop, if it does not exist, provided:

$$\pi(\lambda_h + \lambda_l - 2\nu_{RD}) + (1 - \pi)(\lambda_l - \nu_{RD}) \geq 0 \iff \pi \geq \frac{\nu_{RD} - \lambda_l}{\lambda_h - \nu_{RD}}.$$

Moreover, setting  $\bar{\pi} \equiv \frac{\nu_{RD} - \lambda_l}{\lambda_h - \nu_{RD}}$ , we have  $\bar{\pi} < 1 \iff \lambda_l > 2\nu_{RD} - \lambda_h$ , which also holds by assumption. Moreover, notice that, if  $\pi < \bar{\pi}$ , then the firm cannot use such a strategy, as the reader will prefer not to read anything at all. In that case, the firm's optimal strategy is to place the story of newsworthiness  $\lambda_h$  first, when it is available, and the reader reads it. This concludes the proof.  $\square$