

Abstract

We present a simple model of how a monopolistic search engine optimally determines the average quality of firms in its search pool. In our model, there is a continuum of consumers, who use the search engine's pool, and there is a continuum of firms, whose entry to the pool is restricted by a price set by the search engine. We show that a monopolistic search engine may have an incentive to set a relatively low price that encourages low-relevance advertisers to enter the search pool. This conclusion is independent of whether the search engine charges a price per click or a fixed access fee.

KEYWORDS: search engines, internet, two-sided markets, sequential search.