# Marketing & Public Policy I: Digital Platforms and Retail Markets

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# Abstract of Special Session - Marketing & Public Policy I: Digital Platforms and Retail Markets

Digital platforms, retail markets, and regulatory interventions increasingly shape how consumers, sellers, and firms engage and compete. From AI moderation to retail specialization and platform spillovers, the papers in this session highlight how regulation and design choices shape competition and welfare across digital and offline markets.

We begin with *User Preferences for Large Language Model Refusals* by Pavel Kireyev (LSE) and Maria Ana Vitorino (INSEAD). This paper shows how moderation decisions by large language models affect user prompt behavior and market structure. Using millions of paired interactions from LMArena, this research shows that stricter moderation by proprietary models enables open-source models to attract users seeking riskier content, thereby reducing market concentration. Conversely, standardizing moderation policies would disproportionately benefit proprietary players and increase concentration. This research highlights that moderation policies are not only safety tools but strategic differentiators that shape competitive dynamics among AI providers.

We then turn to brick-and-mortar competition with *Defensive Specialization: Theory and Evidence from Mexico's Retail Sector* by Tommaso Bondi (Cornell University), Luis Cabral (New York University), Shreya Kankanhalli (Cornell University), and Miguel Angel Talamas-Marcos (Inter-American Development Bank). Using retail census data from Mexico, the authors show that small and independent retailers facing large-chain entry optimally specialize into narrower product categories. This specialization increases their resilience and relative market share, offering a new explanation for the rise of niche retail formats in economies shaped by dominant entrants.

The third paper, *How Short-Term Rental Regulations Reshape Urban Spending* by Davide Proserpio (University of Southern California), Kaihang Zhao (Emory University), and Tal Shoshani (University of Southern California), examines how restrictions on Airbnb affect downstream economic activity. Leveraging a stringent 2023 New York City regulation as a natural experiment, this research shows that reducing short-term rental availability leads to a 10% decline in restaurant spending, especially among high-end and tourist-oriented establishments. These results demonstrate how policy intended to stabilize housing affordability can depress spending in adjacent sectors—suggesting that regulating one market can indirectly throttle economic activity across others.

We conclude with *Cleanin' It Up: Unshrouding Hidden Fees on a Peer-to-Peer Platform* by Kevin Tran (University of Bristol), Leonardo Madio (University of Padua), Mark Tremblay (University of Nevada, Las Vegas), and Michelangelo Rossi (HEC Paris). The paper examines Airbnb's shift to fee-inclusive price displays for EU users and shows how this transparency affects pricing strategies among hosts. Specifically, inattentive hosts raise base prices once total prices become visible, while sophisticated hosts adjust fees more selectively. This demonstrates how transparency requirements reshape reference pricing and competitive behavior on peer-to-peer platforms.

Collectively, these papers show how regulation, market structure, and strategic adaptation co-determine outcomes across digital and physical marketplaces, with implications for platform policy, competitive strategy, and consumer welfare.