MEDIA MERGERS AND MEDIA BIAS WITH RATIONAL CONSUMERS

Simon P. Anderson
University of Virginia

John McLaren
University of Virginia

Abstract

We present an economic model of media bias and media mergers. Media owners have political motives as well as profit motives, and can influence public opinion by withholding information that is pejorative to their political agenda – provided that their agenda is not too far from the political mainstream. This is true even with rational consumers who understand the media owners’ biases, because the public do not know how much information the news organizations have and so do not know when news is being withheld. In line with conventional wisdom, this problem can be undone by competition; but competition can be defeated in equilibrium by media mergers that enhance profits at the expense of the public interest. We thus derive a motive for media merger policy that is completely distinct from the motives behind conventional antitrust. While media bias may reduce the profit incentives to merge, media markets nonetheless err to being insufficiently competitive, and the consequences of merger are more severe than in other markets. (JEL: D23, L82)