Abstract

In online contents markets, content providers collect revenues from both consumers and advertisers by segmenting consumers who are willing to avoid advertisements and who are not. To analyze such situations, I construct a model of menu pricing by advertising platforms in two-sided markets. I find that, under a linear environment, although a monopolistic platform can choose any menu of price-advertisement pairs, the optimal menu consists of only *two* services: ad-supported basic service and ad-free premium service. This menu pricing is well known as *freemium*. Furthermore, freemium remains to be an equilibrium menu pricing even under duopoly.

Keywords: Freemium, menu pricing, two-sided markets

JEL Codes: D42, D43, D85, L86, M21, M37