

Section B

The market for online advertising space

Figure 1: Shares of UK supply of search engine advertising, measured by total internet searches (July 2024)

Company	Market share of supply of total internet searches
Google	91.02%
Bing	3.88%
Yandex	1.37%
Yahoo	1.24%
DuckDuckGo	0.62%
Ecosia	0.10%
Other	1.77%

Source: GS Stats Counter

Extract A

State of the Market and Economies of Scale

While Google has competitors such as Bing, Google's prices for search advertising space are 30% to 40% higher than those on Bing according to UK competition authorities.

There are several smaller search engines. This includes DuckDuckGo, a privacy focussed search engine which does not track users. This constrains the firm's ability to raise revenue with targeted adverts but this feature also attracts privacy-conscious customers. Another search engine is Ecosia, which uses its profits to plant trees instead of paying out dividends to shareholders.

Globalisation has allowed the expansion of supply chains, and the growth of Facebook and Google through social networks makes purchasing advertising space more attractive to new customers. Technology firms can split up their labour force into different teams for design, marketing, software, hardware and so on. Moreover, being based in Silicon Valley in the US, the home of many technology businesses, means better access to labour markets, ideas and supply chains.

Extract B

New challenges to internet search

The number of ChatGPT users has grown from 100 million in January 2023 to 180.5 million in October 2024. Consumers may choose to use AI chatbots, such as ChatGPT, to answer their queries instead of using search engines.

Google responded to the increased use of ChatGPT by creating its own ChatGPT rival, called Bard (now Gemini). Even if AI chatbots continue to improve, consumers may still prefer traditional search engines for up-to-date information, shopping and travel.

Extract C

The view of the Competition and Markets Authority

Big technology companies such as Google and Meta engage in many acquisitions. For instance, the Competition and Markets Authority (CMA) has investigated and permitted Google's acquisition of data analytics firm Looker Data Sciences. Both firms supply data analytics tools. There is also a vertical relationship, as Google can provide data for Looker to analyse.

In the United States, a judge found Google had built an illegal monopoly. Google argued that it won over users with high quality services. However Google has been making payments to companies such as Apple to make sure its search engine was the default on phones and internet browsers.

US regulators are proposing remedies ranging from forcing phones to allow free choice of search engine to breaking up Google. Meanwhile, the European Commission has fined Google £1.86 billion for giving an illegal advantage to its own comparison shopping service over other similar services in its search results.

In the UK, the Competition and Markets Authority (CMA) has set up a “Digital Markets Unit” that can impose regulations on large technology companies. This could include implementing a new code of conduct, implementing fines or making the market more contestable by allowing data access for rival firms.

Sources: BBC, CMA, FT, various other sources.

Questions

- (a) With reference to **Figure 1**, explain why the market structure of search engines advertising may lead to allocative inefficiency. (5 marks)
- (b) Assess why search engines may choose to pursue an objective other than profit maximisation. Refer to **Extract A** in your answer. (10 marks)
- (c) With reference to **Extract A**, examine the internal **and** external economies of scale that technology companies may experience. (8 marks)
- (d) Using a cost-revenue diagram, assess the effect on Google’s profits of the growth in the user base of ChatGPT. Refer to **Extract B** in your answer. (12 marks)
- (e) Evaluate possible policies that competition regulators may use to prevent large technology firms from abusing market power. Refer to the extracts and your own knowledge. (15 marks)