Advertising as Coordination: Evidence from a Field Experiment*

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July 21, 2023

Abstract

Paid advertising can increase market efficiency by directing buyers to sellers with greater capacity. We show this with a field experiment in a large marketplace, where all sellers could choose to buy advertising but buyers were randomized into *seeing* the advertising. Contrary to concerns that buyers might infer advertising sellers were adversely selected, treated buyers sought out advertising sellers. Consistent with this buyer preference, advertising sellers were better on every measurable dimension, particularly in their capacity to take on more work. This shift in buyer attention to higher-capacity sellers increased market transaction volume by around 2%. Costly advertising was necessary to facilitate this coordination, as mere statements about capacity had become uninformative.

JEL Codes: D82, D83, J01, L8, M3

*We gratefully acknowledge generous financial support from the NET Institute (`www.netinst.org`). Thanks to seminar participants at the NYU Stern Technology Department and Microsoft Research New England. Thanks to Susan Athey, Kyle Bagwell, Michael Ostrovsky, Adam Ozimek, Brad Shapiro, and Robert Somogyi for their helpful comments and suggestions. "Diego Urraca" is a pen name for an employee of the anonymous platform market, and is used to preserve the anonymity of the platform. However, this paper was not subject to prior review and only reflects the opinions of the authors. The latest version can be found at https://www.apostolos-filippas.com/papers/coy.pdf.