

Abstract

When a consumer suffers damage from a third-party seller's goods purchased through a platform, who should compensate that consumer, the defective seller or the platform? To this end, a model of two-sided platforms is examined, in which a platform designs its liability policy that specifies what percentage of consumer harms the defective seller and the platform should compensate for. Results show that the platform takes no liability and places full liability on sellers. Additionally, regulations that impose a minimum standard of platform liability may hurt consumer surplus if seller competition is intense and if the platform has substantial market power.