Supply-Side Responses to Privacy Protection

Very Preliminary

Full Draft Available from Authors

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Abstract

The ICT revolution has made it increasingly easy for firms and websites to track and record consumers' actions. This has led to regulation designed to protect consumers from unwanted surveillance. This paper explores how websites respond to changes in privacy regulation governing the placement of tracking devices on computers. We study the implementation of the E-Cookie directive in the United Kingdom in May 2012 that forced websites to disclose the use of tracking devices. We find that there was an increase in the placement of tracking devices (measured by cookies) by firms after the implementation of the directive. We present evidence that this is not simply due to an increase in temporary tracking cookies that might facilitate compliance with the new regulation. Given that these tracking devices are widely used to target online advertising, we also estimate the impact of the regulation on advertising supply. We present evidence that on average there was a small increase in the size of advertising in response to the policy change. This appears to have been driven by websites that used fewer cookies. The websites that increased their cookie use in response to the policy change did not increase advertising supply. A possible explanation is that firms who did not increase their use of cookies in response to the policy change substituted towards less profitable untargeted advertising.

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