Abstract

Although bundling is acknowledged to be generally pro-competitive, it has been attacked in legal practice (e.g., LePage’s Inc v. 3M Company) and in certain theoretical models. Under special assumptions the latter show that a monopoly product can be bundled with a competitive product to reduce entry into the competitive industry, and this result is judged to be anticompetitive. But an untested theory of possible harm is an unsatisfactory foundation for constraining market responsive decisions that also can be innovative to the benefit of consumers. We report experimental markets, with and without bundling, that are rigorously faithful to the baseline postulates of the theory. With bundling we confirm that entry is indeed reduced into the competitive industry, but it remains adequately contestable, yielding fully competitive prices. Moreover, welfare is not reduced—consumer and total surplus tend to increase, and these results are robust under variations that introduce transactions costs and relax some of the restrictive demand assumptions that limit the applicability of the theory.