AI Start-ups and Competition
Research Proposal for the Young Talent Competition Award 2024

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Abstract

Artificial Intelligence (AI) start-ups are raising billions of dollars, and the Tech Giants seem to have engaged into a race to acquire promising AI startups and attract top AI talents. However, scrutiny from antitrust authorities around the word is growing regarding these AI competitive tactics, and several agencies have launched inquiries into the partnerships concluded between large tech firms and generative AI providers. There is a concern that smaller AI developers may have difficulties competing against larger, well-established firms, and that the domination of the AI market by a few actors may limit consumer choice, stifle innovation, and ultimately harm consumers. To evaluate whether market concentration in the AI sector is indeed harmful for competition, I evaluate the market dynamics post-acquisitions and post-investments in AI start-ups by Big Tech. Using a Venture Capital database and based on difference-in-differences estimation, I examine the effect of AI start-up acquisitions and investments on (1) entry, (2) the performance of competitors (i.e., other AI start-ups not involved in the transaction), and (3) innovation in the AI industry.