

Regulating Virtual Worlds

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User 1

User 2

User 3

User 4

Virtual World
Provider

Regulator

User 1

User 2

User 3

User 4

Virtual World
Provider 1

Virtual World
Provider 2

Virtual World
Provider 3

Virtual World
Provider 4

Regulator 1

Regulator 2



Consequences

- ▶ **Users / Providers** may **arbitrage out** of regulatory regime, thus real world regulator loses power to regulate directly
- ▶ Ongoing **competitive dynamic** between providers may lead to political pressure on regulator to reduce regulatory burden (and thus lower the incentive for providers/users to exit)

Countermeasures

- ▶ Reduce Leakage
(increase switching costs)
- ▶ Coordination
- ▶ Meta-Regulation

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Based on provider as
unitary, regulable entity

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Peer-to-peer provision of virtual worlds
“Napster’s Second Life”