



Stern School of Business Entertainment and Media: Markets and Economics

B30.2119.30, Fall, 2005, Tuesday, 6:00 - 9:00

Professor


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 Professor Greene's home page.

 Stern web page.

Abstract

This course is a survey of economic issues in the entertainment and media industries. It examines some of the special aspects of these businesses that complicate the market processes, such as the particular nature of demand for experience goods (interdependent preferences, fads), pricing strategy for providers of experience goods, scale economies and vertical integration in production, and obstacles to market equilibrium that motivate public policy. Industries examined will include:

- The movie business – the staged project nature of production, vertical integration, peculiar

contracting mechanisms and the reasons that nearly all films ‘lose’ money

- Music and publishing with an emphasis on intellectual property, both legal and economic issues such as valuation and royalties, the implications of new digital media;
- Television and radio, and the fundamental differences between public and private broadcast markets;
- Major league sports, and the implications of simultaneous production and consumption, labor markets, and value creation in the sports leagues;
- Art markets, the creation of and pursuit of economic rents through space and time;
- Gambling, uncertainty, and certainties of the casino business.

● Course Objectives

- We will survey several industries to provide an overview of the markets for different kinds of experience goods.
- We will use the tools of microeconomics to provide insights about features and processes that explain the specific outcomes observed in the markets for experience goods.

● Course Requirements

The course grade will be based on two written assignments, a midterm quiz and a final examination. Class participation is important, especially when discussing cases and current articles. Also, I hope that your classmates (and I) can obtain some benefit from knowledge that many of you who have worked in the entertainment and media industries can share with us.

Grades will be determined on the following basis:

Case: Coming Soon: A Theater Near You	10%
Written assignment	25%
Midterm Quiz	25%
Final Examination (In class)	40%

During the semester, we will examine three particular cases:

- Coming Soon: A Theater Near You, HBS Case 9-797-011
- A-Rod: Signing the Best Player in Baseball, HBS Case 9-203-047
- United States vs. Syfy, Judge Kozinski's Opinion, May, 1990

We will also take a less formal look at Cablevision, a local firm involved in several related business and prominently involved in the 'debate' over the development of Manhattan's West Coast..

The assignments listed above include:

Case: One of the cases is assigned for submission. For your analysis, you will prepare a 1-2 page writeup on the theater case. Your assignment will be to comment on the specific case assignment, then do some searching in the recent press to see how these issues have evolved. In particular, at the time the theater case was written, most of the major theater chains were in bankruptcy. What has happened since then? Are they still? Has the industry changed? What does the future look like? Note, this is to be a short (12 point, double spaced, 1 to 2 page) report, not a major research endeavor. Also, you may work in groups of up to three individuals and submit a single paper for the group, if you wish. ([Download specific guidelines for this writeup.](#))

Quiz. The third class meeting will conclude with a midterm quiz (60 minutes). The material on the quiz will consist solely of the material discussed in class. This will be an open book exam.

Written assignment: Due on the final day of class is a short survey of one of the industries/markets that we will mention in the course. What I would like here is a 3-4 page description of the market that you choose. Pick any that you like. (You may also go outside the list of markets we've discussed if you like. In the past, many students have provided surveys of the markets in which they are employed, for example, the computer game market.) Your writeup should describe the market structure, the major players, and changes that are taking place. Some other issues you might consider are: What are the current trends? Is the market growing or shrinking? How is technological change affecting the market? Are the major firms in the market merging – is the market consolidating? How does the market that you have chosen interact with other markets, both within Entertainment and Media and outside it?

Final exam This will be given in class in the second half of our last session. The final will be an open book, open notes (closed email) quiz for 75 minutes, covering the material of the course.

Codes

- **Stern Honor: Of course.**
- **Social: Your fellow students and your professor will greatly appreciate it if you will please remember to turn off your cell phone before the beginning of class.**

Course Materials

The primary textbook for the course will be: *Entertainment Industry Economics*, Sixth Edition. Hal Vogel, Cambridge Press, 2005.

We will also draw on *Creative Industries: Contracts between Art and Commerce*, Richard Caves, Harvard University Press, 2000.


These two books are used in other courses at Stern, and should be readily available at the school bookstore. If not, keep in mind that Amazon and Barnes and Noble can provide fast, cheap delivery of them at very advantageous prices. Finally, I am not assigning any particular reference book for microeconomics, but you will probably find it useful to have one. Any of the standard industrial organization oriented books, for example, the one used in Stern's Firms and Markets course, *Managerial Economics and Business Strategy*, 4th edition by Michael R. Baye, McGraw-Hill, 2003, should suffice.

The Cablevision and Syfy cases and materials about the Alex Rodriguez case will be distributed in class. The HBS case on the theater industry noted above can be purchased at the bookstore.

We will discuss Judge Kozinski's decision in U.S. vs. Syfy when we discuss the theater (movie distribution) market. The judge's opinion in this case included the titles of over 200 movies. How many can you find? If you are interested in competing for a bottle of Merlot and dozens of style points, hand in the results of your search (in hard copy, titles circled on your copy of the opinion).

We will also rely on several additional articles from the popular press and the formal economics literature. Excerpts from a few of these will be distributed in class. In some cases, full references will be given for those who wish to dig deeper into the subject.

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Course Outline and Schedule

Class meetings will be on Tuesday evenings from 6:00 - 7:20 (part 1) and from 7:35 - 9:00 (part 2).

1 (Reading: Vogel, Chapter 1, Caves, Chapters 11-13)

Part 1: Introduction, Overview of The Economics of E&M Industries, The Economic Setting ([Notes for this session.](#))

Part 2.1: Experience Goods; Demand for Experience Goods; Interdependent Preferences ([Notes for this session.](#))

Part 2.2: Demand and Pricing for Experience Goods ([Notes for this session.](#))

Readings (optional): Right click to download; left click to activate.

[Economics of Performing Shakespeare](#)

[Theory of Interdependent Demand](#)

[A Study of Block Booking of Movies](#)

[Learning from the Behavior of Others](#)

[Information Cascades](#)

[Interesting Stuff About Movie Distribution](#)

[Awards, Success, and Quality](#)

2 (Readings: Vogel, pp. 41-49, 82-92, 143-161, 205-211, Caves, Chapters 5-7, Cablevision case materials, The Syufy Case)

Part 1: Production and Costs; Technological Change; Staged nature of Production. ([Notes for this session.](#))

Part 2: Vertical Integration; Boundaries of the Firm; Market Structures [Cablevision](#) ([Notes for this session.](#))

Coming Soon: A Theater Near You - Case Discussion;

[Assignment #1 Due: Writeup for Theater Case](#)

Some readings related to the theater case

[Movie Industry Projects Bottom...](#)

[Boundaries of the Firm \(Holmstrom and Roberts\)](#)

Readings (optional): Right click to download; left click to activate

[The Syufy Case](#)

[A Miami Fish Story - The Florida Marlins](#)

[Asset Specificity - Actors and Studios \(Relates to Theaters Case\)](#)

[Movies and Overcapacity](#)

[Murdoch and Manchester - V.I. in Soccer](#)

[Vertical Efficiencies in the Movie Business](#)

[Vertical Integration - Theory \(1\)](#)

[Vertical Integration - Theory \(2 - Williamson\)](#)

3 (Readings: Caves, Chapter 19, Contracts in the Music Business, Vogel, Chapters 3 (Movies) . Topics to be discussed include: Intellectual property - patents, trademarks, copyrights, royalties, the music business, the DMCA

Part 1: Intellectual Property ([Notes for this session.](#))

Part 2: Quiz; Midterm on Demand, Cost/Production, Vertical Integration, Intellectual Property

A Puzzle: We'll discuss this in class. Please try to solve this, and think about the nature of the bargaining situation.

[The Winner's Curse](#)

Readings (optional): Right click to download; left click to activate. (Note, most of these are pretty technical. Feel free to sample.)

[Does File Sharing Reduce Sales?](#)

[Wixen Music Company explains music royalties](#)

[A Struggle for Rights - Spider Man](#)

[Some Comments on Business Model Patents](#)

4 (Readings:Vogel, Chapter 12. See, also, Business Week,)

Part 1: GUEST SPEAKER (tentative schedule; possibly in week 5).

Part 2: Sports ([Notes for this session.](#))

[The Baseball Labor Market](#)

[FAQ on the baseball strike\(s\)](#)

[Miami Fish Story - The Florida Marlins](#)

[Business and Baseball - Finance and SaberMetrics](#)

5 (Readings: Caves, Chapters 5, 8; Vogel, Chapter 4, Chapter 11) Uncertainty with respect to the movie business and gambling. "More Winners than Losers." "Uncertainty in the Movie Business: Does Star Power Reduce the Uncertainty in the Box Office?" "Hollywood is an Uncertain Place: Kim Basinger's Ordeal Topics and Complexity in the Movies" to be discussed include: economic rent, profits and losses, profit sharing in the movie business, monopoly and monopsony and the reserve clause, markets for (super)stars, and winner take all markets. Readings below include Mei and Moses, "Art as an Investment,...," Craig, Douglas, Greene, "Cultural Matters,..." on the relationship between US and foreign box office, and Rosen, "The Economics of Superstars" Vogel, Chapters 6, 7)

Part 1: Aspects of Uncertainty; Contracting Arrangements ([Notes for this session.](#))

Part 2.1: Market Structures and Market Outcomes ([Notes for this session.](#))

Part 2.2: Specific Markets: Art; Casino Gambling . ([Notes for this session.](#))

A Puzzle: We'll discuss this in class. Please try to solve this, and think about the nature of the bargaining situation.

[The Winner's Curse](#)

Readings (optional): Right click to download; left click to activate.

[Market for Superstars](#)

[The Syufy Case](#)

[More on Superstars](#)

[A Study of How Foreign Box Office Follows US Box Office](#)

[Kim Bassinger's Ordeal - Star Power in the Movies](#)

[Chaos in the Movie Business - Extreme Uncertainty](#)

[The Role of Culture and Foreign Markets for US Movies](#)

[Some Background on Rosen's Model of Superstars Markets](#)

[Sharing Hollywood Profits](#)

[Movie Failure and Success](#)

[Star Power \(again\) - Reducing Uncertainty in the Movie Business](#)

[Model Building - Rank Uncertainty](#)

[Profit Sharing Arrangements in the Movie Business](#)

[Keeping It All for Themselves: Forrest Gump](#)

[A Study of How Foreign Box Office Success \(Doesn't\) Follow US Box Office Success](#)

[Garrison vs. Hollywood](#)

[Miami Fish Story - The Florida Marlins](#)

[Movie Puzzles - If they all lose money, why do they keep making them?](#)

[The Art Market](#)

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Part 1: Conclusions ([Notes for this session.](#)) Discussion of student market/industry studies.

Part 2: Final Examination



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