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 four written assignments 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:

1. Case: Coming Soon: A Theater Near You (Due on day 2) 15%
2. Written assignment; Entertainment Economics (Due on day 3) 10%
3. Written assignment; DMCA (Due on day 4) 10%
4. Written assignment 3 Industry Study (Due on day 6, 50 - 100 word abstract due on day 5) 25%
5. Final Examination (In class, open book, open notes, day 6) 40%

You may work in small groups (up to three students) on the Theater case and the written assignments (not the final exam).

During the semester, we will examine three particular cases:
• Coming Soon: A Theater Near You, Harvard Business School Case 9-797-011
• United States vs. ASCAP (The Capital Cities Case: This is one of many cases involving music royalties. The March 2, 2007 ruling by the United States Copyright Royalty Board is closely related to this case.
• United States vs. Syufy, Judge Kozinski’s Opinion, May, 1990
• We will also take a less formal look at Cablevision, a local vertically integrated firm involved in several related business.

The assignments listed above include:

Case - Coming Soon, A Theater Near You: The theater case is assigned for submission. For your analysis, you will prepare a 1-2 page writeup on the case. Your assignment will be to comment on the specific case description, 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 assignment.)

Written assignment 1 – Entertainment Economics: This assignment will consist of three questions, answered separately. Each should be answerable in a paragraph or two, and the entire assignment should not take more than 1.5 pages.
(1) Examples of price discrimination can be found throughout the entertainment industry. Locate a clear example for a current piece of entertainment. Describe the pricing strategy being used by the entertainment provider. Discuss the appropriate theoretical foundation for the pricing strategy.

(2) Locate an example of vertical integration among contemporary entertainment firms. Describe the firms in question and the nature of the vertical integration. Can you find counterpart firms in the industry that provide the same products but are not vertically integrated?

(3) How do Americans spend their entertainment budgets? Locate some general descriptions of the different ways that Americans spend money on entertainment. Have the amounts and proportions, or the forms of entertainment changed in the last 20 years? You may answer this question with respect to a different country if you prefer.

**Written assignment 2 - The DMCA:** In our 4th class, we will discuss intellectual property. This encompasses all of the creative arts in the economy including patents on products, devices, machines and processes, copyrights including, of interest in our class, music and video productions as well as publishing and a host of other creative expressions, and trademarks. A central feature in the current business scrimmage over music and new video copyrights is the Digital Millennium Copyright Act, or DMCA. This assignment asks you to, first, research the DMCA, itself and find out what it is and what its intended role in the economy is, then, second, write a short paper (one page will suffice) documenting the role of the DMCA in the current case of Viacom vs. YouTube. (Viacom has sued YouTube (Google, its owner) for $1 billion for copyright infringement because users of YouTube are posting vast numbers of clips containing copyrighted material and YouTube is not doing enough to stop them.) An additional question you should pursue for this assignment - briefly: According to the copyright law, what is a "public performance (of a piece of music)?" Now, the large question: Is a "music (or video) download a performance?" Why would it be? (A useful place to start: Note the last item in the list of readings for session 4.)

**Written assignment 3 - Market Study:** Due on the final day of class is a short survey of one of the industries/markets that we will mention in the course, or some other related industry if you have a particular interest in a segment of the entertainment/media market that we have not discussed. (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.) What I would like here is a 3-4 page description of the market that you choose. 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? **On day 5, please submit a short (50 - 100 words) an abstract of the paper you will submit on the last day of class. This need not be more than a statement of the market you intend to study and a sentence or two about what you expect to write about.**
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

A useful reference book for the course is: *Entertainment Industry Economics, Seventh Edition, Hal Vogel, Cambridge University Press, 2005.* (Also at Barnes and Noble). Note that Vogel is optional, not required. If you work in the entertainment industry, or will do so, you should find this a useful work to have on your shelf.

We will also draw on two books by Richard Caves:

- *Creative Industries: Contracts between Art and Commerce, Harvard University Press, 2000.* (At Barnes and Noble)
- *Switching Channels: Organization and Change in TV Broadcasting, Harvard University Press, 2005.* (At Barnes and Noble)

The Vogel book is used in other courses at Stern, and should be readily available at the school bookstore. If not, Amazon and Barnes and Noble can provide fast, cheap delivery at very advantageous prices - the Vogel book is widely used around the country and there is no shortage of copies. Consider the Caves books optional as well (though interesting - if you keep a library of books on this subject, you might find them appealing). 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, 5th edition* by Michael R. Baye, McGraw-Hill, 2006, should suffice.

The "Theater Near You," Cablevision and Syufy cases will be distributed in class.

We will discuss Judge Kozinski’s decision in *U.S. vs. Syufy* when we discuss the theater (movie distribution) market.] The judge’s opinion in this case included the titles of over 200 movies (admittedly a bit old now). How many can you find?]

The *Capital Cities* case contains a large amount of legal opinion about basic microeconomics. This case is posted with the other articles for the course. (See session 4.)

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. A large number of articles are posted below on the course website – some of these are links to online material. Most of these are optional; I have posted
them for those who are interested in some additional material on the subjects we discuss in class. A few of these readings will be assigned for the respective class. These are noted below.

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**Course Outline and Schedule**

**Session 1  Introduction to Entertainment and Media Markets**

(Notes for this session.)  (Powerpoint format)  
Part 2.1: Experience Goods; Demand for Experience Goods; Interdependent Preferences  
(Notes for this session.)  (Powerpoint format)  
Part 2.2: Demand and Pricing for Experience Goods  
(Notes for this session.)  (Powerpoint format)

- Text Reading: Vogel, Chapter 1, Caves, Chapters 11-13

- Readings: Right click to download; left click to activate.  
  Economics of Popular Music: Rockonomics  
  A Lesson in Pricing for Concert Promoters  
  The movie industry defies the falling economy  
  Market for Superstars  
  Movie Stars and Economics - Superstar Economics  
  (URL)  
  More on Superstars  
  Some Background on Rosen's Model of Superstars Markets  
  Economics for the Coolest Computer Ever Made  
  Price Discrimination in Black and White  
  (PDF)  
  Pricing Strategy for Multiple Outputs (Movies and Popcorn)  
  Elasticity of Demand for Baseball Tickets  
  Economics of Performing Shakespeare  
  Theory of Interdependent Demand  
  Learning from the Behavior of Others  
  Is Justin Timberlake a Product of Cumulative Advantage?  
  Information Cascades  
  Awards, Success, and Quality

**Session 2  Production, Costs, Technological Change, Organizations, Market Structure**

Part 1: Production and Costs; Technological Change (the DVD market); Staged nature of Production.  
(Notes for this session.)  (Powerpoint format)  
Part 2: Vertical Integration; Boundaries of the Firm; Market Structures  
Cablevision  
(Notes for this session.)  (Powerpoint format)

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

Coming Soon: A Theater Near You - Case Discussion

**Assignment Due:** Writeup for Theater Case

Some readings related to the theater case  
Movie Industry Projects Bottom...
Session 3  Market Structure (cont.), Boundaries of the Firm, Contracts

Assignment Due: Entertainment Economics

Part 1: Contracts in the Entertainment Business (Notes for this session) (Powerpoint format).
Contracts in the music business (Notes for this session) (Powerpoint format); Reading:
Caves, Chapter 19
Those huge star contracts: A Rod, David Beckham, Kevin Garnet. Capital Assets.

Part 2: Vertical Integration, Boundaries of the Firm, Contracts
Readings: Right click to download; left click to activate.
Gross and Net in Hollywood Contracts
Keeping It All for Themselves: Forrest Gump
Profit Sharing Arrangements in the Movie Business
Garrison vs. Hollywood

Session 4 Intellectual Property, Patents, Trademarks, Copyrights, Royalties, the Music Business

Assignment Due: The Digital Millennium Copyright Act (DMCA)

Part 1: Intellectual Property - Patents, trademarks, copyrights (Notes for this session) (Powerpoint format)
(Readings: Vogel, Chapter 3 (Movies), 5 (Music);
Topics to be discussed include: Intellectual property - patents, trademarks, copyrights, royalties, the music business, the DMCA
Part 2. Intellectual Property (Cont.) Movies and music, copyrights, royalties (Notes for this session) (Powerpoint format)
Readings: Right click to download; left click to activate.

Does File Sharing Reduce Sales?
- Wixen Music Company explains music royalties
- A Struggle for Rights - Spider Man
- U.S. vs. ASCAP - The Capital Cities Case
- March 2, 2007 (very controversial) decision on royalty rates by the Copyright Royalty Board

(Library of Congress)
- Some Comments on Business Model Patents
- Speaking of business model patents: Netflix sues Blockbuster
- Cybersquatters still partying like it's 1999
- Current issues in the music business - House Judiciary Committee
- The consent decree (AFJ2) that governs performance royalties
- Viacom and YouTube
- The Digital Millennium Copyright Act (DMCA)
- Learn about DMCA and Safe Harbor Provisions
- The performance rights organizations (PROs) ASCAP BMI SESAC Mechanical rights organization
- Harry Fox
- More rights - Soundexchange collects royalties for record labels (and others) SoundExchange
- The sky is falling (on internet radio)
- Copyright Royalty Board decision (March 2, 2007); Discussion
- Is a download a performance?
- Some interesting commentary on the case
- The Court says no, it isn’t.

Session 5 Uncertainty, The Winner's Curse; Art; Casino Gambling; Sports

Assignment Due: Abstract of Proposed Entertainment/Media Market Examination

Part 1: Uncertainty and the Winner's Curse. Uncertainty and star contracts. (Notes for this session.) (Powerpoint format)
- 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

Part 2: Market Structures and Market Outcomes (Notes for this session.) (Powerpoint format)
- (Readings: Vogel, Chapter 3; Caves, Chapters 5, 8)

Readings: Right click to download; left click to activate
- Kim Basinger's Ordeal - Star Power in the Movies
- Movie Stars and Economics - Superstar Economics (URL)
- Chaos in the Movie Business - Extreme Uncertainty
- The Role of Culture and Foreign Markets for US Movies
- Movie Failure and Success
- Star Power (again) - Reducing Uncertainty in the Movie Business
- Model Building - Rank Uncertainty
- A Study of How Foreign Box Office Success (Doesn't) Follow US Box Office Success
- Movie Puzzles - If they all lose money, why do they keep making them?
- There is never any net (Garrison vs. Warner Brothers -- and everyone else)
Part 3: Specific Markets: Art; Casino Gambling  (Notes for this session.) (Powerpoint format)
Part 4: Sports  (Notes for this session.) (Powerpoint format)
(Readings: Vogel, Chapters 11 and 12. See, also, Business Week)
Readings: Right click to download; left click to activate.
   The Antitrust Case Against Sotheby's and Christies
   The Art Market
   The Baseball Labor Market
   FAQ on the baseball strike(s)
   Business and Baseball - Finance and SaberMetrics

Session 6  **Media Markets: Television, Radio, Publishing.**
**Auctioning the Spectrum for 3G**

**Assignment Due:**  Examination of an Entertainment/Media Market

Part 1: Some Specific Markets: Television, Radio, Publishing  (Notes for this session.) (Powerpoint format)
(Readings: Vogel, Chapters 6, 7, 9)
(Reading: Right click to download; left click to activate.
   The Biggest Auction Ever - 3G in Europe
   Discussion of student market/industry studies.

Part 2:  Final Examination  (Notes for this session) (Powerpoint format)