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SI 646 Information Economics
University of Michigan
Prof. Mark McCabe
Winter 2009
Syllabus

Week 1

Mandatory Read:

1. Carl Shapiro; Hal R Varian, *Information rules: a strategic guide to the network economy*, ch. 1 <http://www.worldcat.org/oclc/39210116>
2. Hirshleifer, J. and J. Riley (1992). *The Analytics of Uncertainty and Information* (Cambridge Univ. Press). Sections 1.0 – 1.4.1 (pp. 7-19), 1.5 (pp. 23-33), 5.0-5.2.2 (pp.167-187), 5.2.4-5.2.5 (pp. 200-208) (CT)
<http://www.worldcat.org/oclc/23976725>

Supplemental Read:

1. DeLong, J. B. and Froomkin, A. M. (2000). "Speculative Microeconomics for Tomorrow's Economy". *First Monday*, Vol 5 No. 2, February 2000 (online/CT).
2. Hirshleifer and Riley, op. cit. Sections 1.6 (pp. 33-39), 5.2.3 (pp. 187-200), 5.3.0-5.3.2 (pp. 209-222) (CT). <http://www.worldcat.org/oclc/174454774>

Week 2

Mandatory Read:

1. Carl Shapiro; Hal R Varian, *Information rules: a strategic guide to the network economy*, ch. 2 <http://www.worldcat.org/oclc/39210116>
2. Nagle, T. (1984). Economic Foundations for Pricing. *Journal of Business*, 57 (pt. 1 of 2), s3-s26. (JSTOR) (CT) <http://www.worldcat.org/oclc/10356279>
3. Sahay, A. (2007), "How to Reap Higher Profits with Dynamic Pricing", *Sloan Management Review*, 48(4/Summer): 53-60. (CT)

Supplemental Read:

1. Bonn, Maria S., Wendy P. Lougee, Jeffrey K. MacKie-Mason and Juan F. Riveros (2008), "The PEAK Project: A Field Experiment in Pricing and Usage of a Digital Collection," in MacKie-Mason, J. and W. Lougee, eds. *Economics and Usage of Digital Collections*. University of Michigan, Scholarly Publishing Office. (CT)
2. Lancaster, K. (1966). A New Approach to Consumer Theory. *Journal of Political Economy*, 74(2), 132-157. (CT) (JSTOR)
3. Brooks, Christopher H., Robert S. Gazzale, Rajarshi Das, Jeffrey O. Kephart, Jeffrey K. MacKie-Mason, and Edmund H. Durfee (2002). "Model Selection in an Information Economy: Choosing What to Learn," *Computational Intelligence*, vol. 18, no. 4 (Nov.): 566-582. (CT)

Mandatory Case: Baradwaj, N. and J. B. Gordon (2007). *Atlantic Computer: A bundle of pricing options*. Harvard Business School Case 2078. (to be distributed in class)

Week 3

Objective: What are the implications for competition, efficiency and new product innovation when information goods or services are characterized by network externalities?

Mandatory Read:

1. Carl Shapiro; Hal R Varian, *Information rules: a strategic guide to the network economy*, ch. 7
2. Katz, M. L. and Shapiro, C. (1994). "Systems Competition and Network Effects". *Journal of Economic Perspectives*. 8(2): 93-115. (CT) (JSTOR)
3. Liebowitz, S. J. and Margolis, S. E. (1994). Network Externality: An Uncommon Tragedy. *Journal of Economic Perspectives*. 8(2): 133-150. (CT) (JSTOR)

Supplementary Read:

1. Rochet, Jean-Charles and Jean Tirole (2005). "Two-Sided Markets: A Progress Report", IDEI Working Paper, 29 November. (CT)
2. Eisenmann, T., G. Parker and M. Van Alstyne (2006). "Strategies for Two-Sided Markets". *Harvard Business Review*, October. (CT)

Mandatory Case: U.S. v. Microsoft

1. Gilbert, R. J. and M L. Katz (2001). "An Economist's Guide to U.S. v. Microsoft", *The Journal of Economic Perspectives*, Vol. 15, No. 2. (Spring), pp. 25-44. (CT)
2. Jeffrey Mackie-Mason (JMM), Case Notes.

Week 4

Objective: How should an information provider in competition with others configure the information goods or services she offers? Digital information is relatively easy to unbundle and re-bundle. If providers have imperfect information about what information consumers want, what strategies can they follow to learn about customer preferences?

Mandatory Read:

1. Carl Shapiro; Hal R Varian, *Information rules: a strategic guide to the network economy*,, ch. 3 pp. 73-78
2. Bakos, Y., & Brynjolfsson, E. (1999). "Bundling Information Goods: Pricing, Profits, and Efficiency," *Management Science*, 45(12): 1613-1630. (CT)

Supplementary Read:

1. Brooks, Christopher H., Robert S. Gazzale, Jeffrey K. Mackie-Mason, and Edmund H. Durfee (2004). "Improving Learning Performance by Applying Economic Knowledge", *Lecture Notes in Computer Science*, vol. 3048 (Springer-Verlag). (CT)

2. MacKie-Mason, Jeffrey K. and Juan Riveros (2000), "Economics and Electronic Access to Scholarly Information," in B. Kahin and H. Varian, eds., *Internet Publishing and Beyond: The Economics of Digital Information and Intellectual Property* (MIT Press: Cambridge, Mass.), esp. sections 1-3.1, 3.3, 4.2-4.3 (CT)

Mandatory Case: Bundling Academic Journals

1. Edlin, Aaron S. and Daniel L. Rubinfeld (2004). "Exclusion or Efficient Pricing? The "Big Deal" Bundling of Academic Journals", *Antitrust Law Journal*, 72(1): 119-159. (CT)
2. McCabe, Mark (2002), "Journal Pricing and Mergers: A Portfolio Approach." *American Economic Review*, Vol. 92(1, March):259-269. (CT)
3. JMM, Case Notes.

Week 5

Objective: Creating information content requires effort, and effort is costly. At least some creators will create less if they cannot obtain compensation for their efforts. Digital rights management is a family of approaches to protect the rights of creators to obtain compensation. Yet many claim that unprotected sharing does not harm creators, and may even benefit them. What do we know currently about basic models of rights management, and their impacts on compensation to creators?

Mandatory Read:

1. Carl Shapiro; Hal R Varian, *Information rules: a strategic guide to the network economy*,, ch. 4
2. Dirk Bergemann, Thomas Eisenbach, Joan Feigenbaum, Scott Shenker, Flexibility as an Instrument in Digital Rights Management. In Workshop on the Economics of Information Security 2005. (CT)

Mandatory Case: File Sharing

1. Felix Oberholzer and Koleman Strumpf (2007). "The Effect of File Sharing on Record Sales: An Empirical Analysis". *Journal of Political Economy*, 115(1): 1-42. (CT)
2. Liebowitz, S. (2007), "A Comment on the Oberholzer-Gee and Strumpf Paper on File- Sharing", Working paper, University of Texas at Dallas (September). Available from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1017418. (CT)
3. JMM, Case Notes.

Week 6

Objective: What is a "long tail", and are they more important now for information goods? Why or why not? If the conditions for long tail demand apply to your information goods, what are the implications for competitive strategy: how you should price, bundle, market your products?

Mandatory Read:

1. Chris Anderson (2006), *The Long Tail* (Hyperion), chs. 1, 2, 8. (CT)
2. Brynjolfsson, E., Y. J. Hu, M. D. Smith (2006). "From Niches to Riches: Anatomy of the Long Tail", *MIT Sloan Management Review*, 47(4), 67-71. (CT)

Mandatory Case: Long wait for long tail?

1. Wu, T. (2006), "The Wrong Tail", *Slate*, 21 July. (CT)
2. Gomes, L. (2006), "It May Be a Long Time Before the Long Tail Is Wagging the Web", *The Wall Street Journal*, 26 July. (CT)
3. JMM, Case Notes.