

Stern School of Business


Entertainment and Media: Markets and Economics

GB.2119.30

● Professor

Professor William Greene
Department of Economics
Office: MEC 7-90, Ph. 998-0876, Fax. 995-4218
[e-mail: wgreene@stern.nyu.edu](mailto:wgreene@stern.nyu.edu)

 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 four written assignments and a take home 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**) 20%
2. Written assignment; Entertainment Economics (Due on **day 3**) 20%
3. Written assignment; DMCA (Due on **day 4**) 20%
4. Written assignment 3 Industry Study (Due on **day 6**) 40%

You may work in small groups (up to three students) on the Theater case and the written assignments.

During the semester, we will examine three particular cases:

- * Coming Soon: A Theater Near You, Harvard Business School Case 9-797-011 (will be distributed in class)
- * 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. 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 type 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 now 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 case of Viacom vs. YouTube. (Viacom sued YouTube (Google, its owner) for \$1 billion for copyright infringement because users of YouTube posted vast numbers of clips containing copyrighted material and YouTube did not do 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 item in the last group 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?

🟡 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 very useful reference book for the course is: [*Entertainment Industry Economics, Eighth Edition*](#). [Hal Vogel, Cambridge University Press, 2010](#). ([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. Also, if you have an earlier edition, you may use it instead.

Vogel 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. I am not assigning any particular reference book for microeconomics, but you may 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," case will be distributed in class. The Cablevision, Syfy and Capital Cities cases are accessible from this home page in the listings below.

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 (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.) A recent [ASCAP case, involving Yahoo!, AOL and Real Networks](#) (April, 2008) grapples with the new problems created by online distribution of music. ([This case is posted via the ASCAP website](#) with the references for Session 4.)

We will also rely on several additional articles from the popular press and the formal economics literature. 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.

Course Outline and Schedule

Session 1 Introduction to Entertainment and Media Markets

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

([A Survey: Cabral on Trends in Media and Entertainment](#))

Part 2: Experience Goods; Demand for Experience Goods; Interdependent Preferences ([Notes for this session](#))

Part 3: Demand and Pricing for Experience Goods ([Notes for this session](#))

Part 4: Windowing and Release Strategies ([Notes for this session](#))

Text Reading: Vogel, Chapter 1

Readings: Right click to download; left click to activate.

* Music

[Economics of Popular Music: Rockonomics](#)
[Scalpers Beware: Paperless Tickets](#)

* Social Capital

[A Study of Social Capital: Wal Mart](#)
[The movie industry defies the falling economy](#)

* Stars and Star Power

[Market for Superstars](#)
[Movie Stars and Economics - Superstar Economics](#) (URL)
[More on Superstars](#)
[Some Background on Rosen's Model of Superstars Markets](#)

* Price Discrimination and Pricing Strategy

[Dynamic Pricing for the Lion King](#)
[Premium Pricing on Broadway](#)
[Economics for the Coolest Computer Ever Made](#)
[Price Discrimination in Black and White](#)
[Pricing Strategy for Multiple Outputs \(Movies and Popcorn\)](#)
[Elasticity of Demand for Baseball Tickets](#)
[Economics of Performing Shakespeare](#)
[Extreme Price Discrimination in Movies](#)
[This is what happens when marginal cost equals zero.](#)

* Interdependent Demand and Cascades

[Theory of Interdependent Demand](#)
[Learning from the Behavior of Others](#)
[Is Justin Timberlake a Product of Cumulative Advantage?](#)
[Information Cascades](#)
[J.K.Rowling Literary Fame](#)
[Why do we have the Academy Awards? A Panel of Experts](#)
[Awards, Success, and Quality](#)

* Release Windows for Movies

[Interesting Stuff About Movie Distribution \(Exhibition\)](#)

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](#))

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

Part 3: Vertical Integration ([Notes for this session](#))

Text Readings: Vogel, pp. 41-49, 82-92, 143-161, 205-211, [Cablevision](#) case materials, [The Syfy Case](#))

Coming Soon: A Theater Near You - Case Discussion

Assignment Due: Writeup for Theater Case

Some readings related to the theater case

[New Technology and Movie Distribution](#)

[New Technology and Movie Exhibition](#) (Go digital or go dark)

[Small Theaters Cannot Afford the Conversion](#)

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

[Current problems in the movie business](#)

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

[Bollywood Film Producers Sue Theater Chains \(PDF\)](#)

[Bollywood Suit is Resolved](#)

[Theater Chains in a Dispute with Disney Over Terms for Iron Man 3](#)

[Resolution of the Dispute with Disney](#)

Readings and information: Right click to download; left click to activate

* Asset Specificity and the Holdup Problem

[THE Hollywood Antitrust Case - US vs. Paramount](#) ([Download](#))

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

[Asset specificity in India – Hollywood in reverse?](#)

* Antitrust Cases

[The Syufy Case](#)

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

[Competition in the Manhattan Theater Market](#)

[Background about AEREO](#)

[AEREO Case 2014](#)

[And more about Aereo](#)

* Monopoly and Market Power

- * [\(Alleged\) publishers conspiracy with Apple](#)
- * [Monopolization of the Las Vegas movie theater market; The Syfy case](#)
- * [Where does the money go?](#)
- * [There is never any net \(Garrison vs. Warner Brothers -- and everyone else\)](#)

* Vertical Integration

[Vertical integration approach to scalping - LCD](#)

[Vertical relationships in electronic book \(e-book\) publishing](#)

[Lots of interesting reports about financing in Hollywood \(Net, Gross and Really Gross\)](#)

[Vertical integration in the broadcast industry - the Fin-Syn Rules](#)

[Cablevision - A vertically integrated media company](#)

[Vertical Integration in Publishing: Amazon's Kindle](#)

[More Vertical Integration in Publishing: Amazon and Comixology](#)

[Vertical Integration: Disney and Pixar](#)

[Case Study of Vertical Integration - The Publishing Industry \(PDF\)](#)

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

[Vertical Efficiencies in the Movie Business](#)

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

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

[VI in the Music Business, SONY and BMG Europe Finally Merger](#)

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

* Vertical Relationships

[Movies and Overcapacity](#)

[Interesting Stuff About Movie Distribution \(Exhibition\)](#)

* Conglomerates

[Who are the media conglomerates?](#)

* Horizontal Integration: Comcast-TWC; Sirius and XM Radio: Monopolies?

[Antitrust Calculations for Comcast-Time Warner Cable Merger](#)

[A vertical supplier, Netflix, opposes downstream horizontal merger](#)

[Sirius and XM](#)

[More on Sirius and XM](#)

[Will a Sirius-XM merger increase radio channels or choices?](#)

Session 3 Market Structure (cont.), Boundaries of the Firm, Contracts

Assignment Due: Entertainment Economics

Part 1: Contracts in the Entertainment Business [\(Notes for this session\)](#)

Contracts in the music business;

Those huge star contracts: A Rod, David Beckham, Kevin Garnet. Capital Assets;

Vertical Integration, Boundaries of the Firm, Contracts;

A Cold Eyed Look at the Live Nation 360 Deal with Madonna ([The Madonna 360 Deal](#))

Part 2: Business Models for Online Entertainment [\(Notes for this session\)](#)

Readings: Caves, Chapter 19

Right click to download; left click to activate.

[\\$19 billion valuation for WhatsApp](#)

* Profits and Profit Sharing in the Movie Business
[Net Defies Gravity](#)
[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](#))
(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](#))

Readings: Right click to download; left click to activate.

* Music Royalties and the Music Business
[How Royalties work at Spotify](#)
[Does File Sharing Reduce Sales?](#)
[Wixen Music Company explains music royalties](#)
[The original file sharing app - Napster](#)

Something new in music performance licensing: direct licensing: [One opinion](#) [A second opinion](#)

* Legal Framework for Music Royalties
[The consent decree \(AFJ2\) that governs performance royalties](#)
[U.S. vs. ASCAP - The Capital Cities Case](#)
[March 2, 2007 \(very controversial\) decision on royalty rates by the Copyright Royalty Board \(Library of Congress\)](#)
[U.S. vs. ASCAP case reverse on appeal of the 2008 decision \(Download the 2010 decision\)](#)
[U.S. vs. ASCAP Again - Online Music \(AOL, Yahoo and RealNetworks\) \(download the 2008 rate court decision/order\)](#)
[Is a download a performance?](#)
[Some interesting commentary on the case](#)
[The Court says no, it isn't](#)
[The Supreme Court Agrees](#)
[ASCAP Business Model Challenged](#)
[Judge Cote's Decision in Pandora vs. ASCAP](#)
[ASCAP Reaction to Pandora Decision](#)
[New Legislation for Songwriters](#)

(Reading: Right click to download; left click to activate.
[Background about AEREO](#)

* Other Rights

[The right of publicity](#)
[Ryan Hart \(Rutgers Quarterback\) vs. Electronic Arts](#)
[Detail on the Ryan Hart case](#)
[More detail on the Ryan Hart case](#)
[Publicity vs. The First Amendment](#)

- * Intellectual Property Rights
[A Struggle for Rights - Spider Man](#)
[Property Right or Dastardly Monopoly? Karl Marx](#)
[The sky is falling \(on internet radio\)](#)
[Viacom and YouTube](#)
[Background about AEREO](#)
- * Patents
[Some Comments on Business Model Patents](#)
[Speaking of business model patents: Netflix sues Blockbuster](#)
[Cybersquatters still partying like it's 1999](#)
- * Digital Millennium Copy Right Act - DMCA
[The Digital Millennium Copyright Act \(DMCA\)](#)
[Learn about DMCA and Safe Harbor Provisions](#)
- * Performance Rights Organizations (PROs)
The performance rights organizations (PROs) [ASCAP](#) [BMI](#) [SESAC](#)
Mechanical rights organization [Harry Fox](#)
More rights - Soundexchange collects royalties for record labels (and others)
[SoundExchange](#)

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

- Part 1: Uncertainty and the Winner's Curse. Uncertainty and star contracts. [\(Notes for this session\)](#)
Part 2: Specific Markets-Art [\(Notes for this session\)](#)
Part 3: Specific markets-Gambling [\(Notes for this session\)](#)
Part 4: Specific Markets-Sports [\(Notes for this session\)](#)

(Readings: Vogel, Chapter 3; Caves, Chapters 5, 8)
Readings: Right click to download; left click to activate

- * Uncertainty
[The Winner's Curse \(A Puzzle\)](#)
- * Uncertainty in the Movies
[Economic Theory and Risk Avoidance; Hollywood's Tanking Business Model](#)
[Forecasting Movie Success with Bayesian Econometrics](#)
[The Ingredients of Movie Failure: John Carter](#)
[Kim Basinger's Ordeal - Star Power in the Movies](#)
[Movie Stars and Economics - Superstar Economics](#)
[Chaos in the Movie Business - Extreme Uncertainty](#)
[Movie Failure and Success](#)
[Movie Success: How Much Does it Take to Make Money?](#)

[Star Power \(again\) - Reducing Uncertainty in the Movie Business](#)
[Model Building 1 - Rank Uncertainty](#)
[Model Building 2 – Skewness and Variation](#)
[Model Building 3 – Dynamics](#)
[Do Online Reviews Matter to Success of Movies?](#)
[Movie Puzzles - If they all lose money, why do they keep making them?](#)

*** Foreign and U.S. Markets**

[The Role of Culture and Foreign Markets for US Movies](#)
[A Study of How Foreign Box Office Success \(Doesn't\) Follow US Box Office Success](#)

*** Art Market**

[The Antitrust Case Against Sotheby's and Christies](#)
[The Art Market](#)
[Art as an Investment](#)
[Art Is Not Such A Great Investment](#)
[Art not as an Investment](#)
[The art market is an unregulated financial market](#)

*** Gambling**

[Changing the house advantage](#)

(Readings: Vogel, Chapters 11 and 12. See, also, Business Week)

Readings: Right click to download; left click to activate.

[Threat to the NFL business model](#)
[The Baseball Labor Market](#)
[FAQ on the baseball strike\(s\)](#)
[Business and Baseball - Finance and SaberMetrics](#)
The Supreme Court Decision in the Americal Needle Case ([Opinion](#))

[More notes about American Needle](#)

Economists weigh in on the antitrust exemption for sports leagues: ([Economists on the American Needle Case](#))

[A great summary of the American Needle case](#)

Session 6 Media Markets: Television, Radio, Publishing

Assignment Due: Examination of an Entertainment/Media Market

Part 1: Some Specific Markets: Television and Radio ([Notes for this session](#))

Part 2: Specific Market: Publishing ([Notes for this session](#))

Part 3: Summary [\(Notes for this session\)](#)

[\(A Survey: Cabral on Trends in Media and Entertainment\)](#)

(Readings: Vogel, Chapters 6, 7, 9)

Discussion of student market/industry studies.

[Vertical relationships in electronic book \(e-book\) publishing](#)

[Vertical Integration in Publishing: Amazon's Kindle](#)



Professor Greene's home page



Stern web page..