Syllabus for Economics of Network Industries, ECON 104

Winter 2011

Professor Silke Forbes

Office: Economics 229

Office hours: Wednesdays, 1:00-2:30

Course webpage: On WebCT (webct.ucsd.edu).

Prerequisites: ECON 100C or approval of instructor.

Required Textbooks (required sections outlined below):

- Shy, Oz, *The Economics of Network Industries*, Cambridge University Press 2001.
- Evans, David S., Andrei Hagiu, and Richard Schmalensee, *Invisible Engines*, MIT Press 2006 (free download available at mitpress.mit.edu) (EHS)

Course outline:

1. Introduction
2. Game Theory Tools
    - Shy, Appendix A-C
3. Network Externalities and Brand Preferences
    - Shy, Chapter 2.1-2.2
4. Software Variety and Software Piracy
    - Shy, Chapter 3.1-3.3 and 3.5
    - Rob, Rafael and Joel Waldfogel (2006), "Piracy on the High C's: Music Downloading, Sales Displacement, and Social Welfare in a Sample of College Students", *Journal of Law & Economics* 49(1).
5. Switching costs
    - Shy, Chapter 8.1-8.2
    - Knittel, Christopher and Victor Stango (2009) "How Does Incompatibility Affect Prices? Evidence from ATMs", *Journal of Industrial Economics* 57(3), September 2009.

6. Topics in the Economics of the Internet
    - Edelman, Benjamin (2009), "Priced and Unpriced Online Markets", *Journal of Economic Perspectives* 23 (3), pp. 21-36.
    - Evans, David S. (2009), "The Online Advertising Industry: Economics, Evolution and Privacy", *Journal of Economic Perspectives* 23 (3), pp. 37-60.
    - Varian, Hal (2009), "Online Ad Auctions", *American Economic Review*
    - Varian, Hal (2006), "Position Auctions", *International Journal of Industrial Organization*
    - Lee, Robin S. and Tim Wu (2009), "Subsidizing Creativity through Network Design: Zero-Pricing and Net Neutrality", *Journal of Economic Perspectives* 23 (3), pp. 61-76.
7. Technology Adoption and Standardization
    - Augereau, Angelique, Shane Greenstein and Marc Rysman (2006), "Coordination vs. Differentiation in a Standards War: 56K Modems", *RAND Journal of Economics* 37(4), 887-909.
    - Bresnahan, Timothy and Pai-Ling Yin (2005), "Economic and Technical Drivers of Technology Choice: Browsers", *Annales d'Economie et de Statistique* 79/80, pp. 629-670.
    - Simcoe, Timothy (2010), "Standard Setting Committees: Consensus Governance for Shared Technology Platforms", *Working Paper,* Boston University.
8. Two-sided platforms: General Insights
    - EHS, Chapter 3
    - Rysman, Marc (2009), "", *Journal of Economic Perspectives* 23, Summer 2009, 125-144.
    - Bajari, Patrick and Ali Hortacsu (2004), "Economic Insights from Internet Auctions", *Journal of Economic Literature* 42, pp. 457-486.
    - Cabral, Luis and Ali Hortacsu (2010), "Dynamics of Seller Reputation: Theory and Evidence from eBay", *Journal of Industrial Economics* 58(1)
9. Case studies of two-sided platforms
    - Personal computers: EHS, Chapter 4

- Video games: : EHS, Chapter 5
- Personal digital assistants: EHS, Chapter 6
- Mobile phones: : EHS, Chapter 7

10. Summary and Review

Grading:

Your grade will be based on one midterm exam (30% of the grade), a final exam (50% of the grade) and a term paper (20% of the grade).

Exam dates:

Midterm: February 2, in class

Final: March 14, 11:30-2:30

Term paper:

Due date: February 28, in class

You will be required to write a 4-page term paper. As your topic, you may pick one of the four industries discussed in the EHS textbook, chapters 4-7 (personal computers, video games, personal digital assistants, mobile phones). Your paper should discuss the development of your industry from 2005 until now.

No classes on:

January 7, February 25