

Final: Econ 106T

Tuesday 7th December, 3:00-6:00pm

Instructions:

- Suppose you are an economic consultant hired by Sermo to advise them on their business. They are not economists, so make sure to explain all terminology.
- I advise you to first scan the questions, read the case thoroughly (with notes), and then answer the questions.

Shorter Questions (20 points)

1. Sermo is a platform market. What are the sides of the platform? Discuss the same-side and cross-side network effects. (5 points)

2. Sermo acts as a reputation system for drugs. Reputation can provide both “learning” and “disciplining” functions. What is the difference? Which case does Sermo fit into and why? (3 points)

3. What are second-degree price discrimination and third-degree price discrimination? Provide an example of how Sermo uses each of them. (3 points)

4. Sermo charges the client side rather than the doctor side. Why? (3 points)

5. In the context of a network, what is an “influential customer”? Give an example of an “influential customer” in Sermo’s case. (3 points)

6. How could Sermo use different versions AskRx (see p. 5-6) to raise money from doctors? (3 points)

Open-Ended Questions (30 points)

8. What is a “mobilization hurdle” for a network good? How did Sermo overcome the mobilization hurdle? (10 points)

9. Sermo is still not profitable. What are the major avenues to profitability? Discuss the pros and cons of each strategy. (10 points)

10. The site relies on plentiful, accurate information. What does Sermo do to enhance the reliability of information provided by doctors and encourage participation? (10 points)

