

## Econ 106T: The Information Economy

Date: October 27, 2011

Lecture 1: T,R 9:30-10:45, Public Affairs 1246.

Lecture 2: T,R 11:00-12:15, Public Affairs 1246.

Website: [http://www.econ.ucla.edu/sboard/teaching/tech\\_11/tech\\_11.html](http://www.econ.ucla.edu/sboard/teaching/tech_11/tech_11.html)

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### Description

This class analyzes the information economy through the use of economic theory and case studies. It will identify the critical features that differentiate the information economy from traditional industries, and examine business strategies. The class will discuss topics such as network effects, switching costs, and reputation mechanisms. Evaluation is through case studies, presentations and a final paper.

Prerequisites: Econ 11, Econ 41, Econ 101.

## Grading

### Main class grading:

#### 10% Participation

- Case discussions, class participation

#### 30% Case write-ups

- Short answer questions due on morning of big 4 cases

#### 30% Final paper

- Mini case study of firm you pick
- Write in group of 2-3
- Every group does different firm
- Proposal due Nov 15th
- Due on last class (Thursday Dec 1st)

#### 30% Final

- 3 hour case write up
- Closed book, but allowed 10 sides (5 pages) of notes
- Write on exam, so don't need blue book
- Lec 1 on 7th Dec, 8-11am; Lec 2 on 6th Dec 8-11am

### Lab grades:

#### 100% Participation

- Case presentations (big cases); case discussions (small cases)

### How do I stay organized?

Your work consists of two major components:

1. Prepare a case study for each Friday: for the big cases this means preparing a presentation and answering short-answer questions; for the small cases you need to participate in the discussion.
2. Write a final paper with two friends.

You also need to take the final, but this is easy after you've done 8 cases over the quarter!

## Lecture Timetable

There will be 16 regular lectures and 4 case studies featuring special guests.

Date	Event
22nd Sep	No lecture
27th Sep	
29th Sep	
4th Oct	
6th Oct	
11th Oct	<b>Case 1:</b> Facebook, HBS 9-808-128 Guest: James Min, Managing Director at Montgomery & Co.
13th Oct	Prices
18th Oct	
20th Oct	
25th Oct	<b>Case 2:</b> Netflix, HBS 9-607-138 Guest: Barry Eggers, founder of Lightspeed Venture Partners
27th Oct	
1st Nov	
3rd Nov	
8th Nov	<b>Case 3:</b> Android, Stanford SM-176 Guest: Terry Kramer, former Regional President of Vodafone
10th Nov	
15th Nov	Final project proposal due
17th Nov	
22nd Nov	<b>Case 4:</b> eHarmony, HBS 9-709-424 Guest: Louisa Wee, Director Special Projects at eHarmony
24th Nov	Thanksgiving
29th Nov	
1st Dec	Final project due
6th Dec	Final for Lec 2, 8-11am
7th Dec	Final for Lec 1, 8-11am

## Lab Section Timetable

The lab sections will provide scope for case discussion and practice presentations.

Date	Small lab	Big lab
23rd Sep		
30th Sep	Case A: Zappos, HBS 9-610-015	Tutorial: Opening a case (Zappos)
7th Oct	Case 1: Facebook, HBS 9-808-128	Meet with TAs
14th Oct	Case B: Restaurant Promotions, HBS 9-909-034	Meet with TAs
21st Oct	Case 2: Netflix, HBS 9-607-138	Meet with TAs
28th Oct	Case C: The Ladders, HBS 9-908-061.	Tutorial: Final projects
4th Nov	Case 3: Android, Stanford SM-176	Meet with TAs
11th Nov	Veteran's Day	–
18th Nov	Case 4: eHarmony, HBS 9-709-424	Meet with TAs
25th Nov	Thanksgiving	–
2nd Dec	Case D: Yelp, HBS 9-709-412.	Meet with TAs

## Acknowledgements

This class has been greatly improved by input from Eric Budish, Peter Coles and Terry Kramer.

## Introduction

- Shapiro and Varian (1999): “Information Rules”, Ch. 1

## Industry Analysis

- McAfee (2002): “Competitive Strategy”, Ch. 2.
- Porter (2008): “The Five Competitive Forces that Shape Strategy”, Harvard Business Review.

## Competitive Advantage

- McAfee (2002): “Competitive Strategy”, Ch. 3 and 4.
- Porter (1996): “What is Strategy?”, Harvard Business Review.

## The Nature of Information Goods

- Shapiro and Varian (1999): “Information Rules”, Ch. 2.
- Jonathan Levin (2010): “The Economics of Internet Markets”, Working Paper, Stanford University.
- The Economist: ”A World of Hits”, Nov 26th 2009; and “Economics Focus: Profiting from Obscurity”, 7th May 2005.

## Pricing

- Shapiro and Varian (1999): “Information Rules”, Ch. 2-3.
- McAfee (2002): “Competitive Strategy”, Ch. 11.
- Cabral (2000): “An Introduction to Industrial Organization”, Ch. 13 on Advertising.
- Edelman (2009): “Priced and Unpriced Online Markets”, Journal of Economic Perspectives.
- Evans (2009): “The Online Advertising Industry: Economics, Evolution, and Privacy”, Journal of Economic Perspectives.
- Coles and Edelman (2010): “Microsoft adCenter”, HBS 9-908-049.

## Switching Costs and Lock-in

- Shapiro and Varian (1999): “Information Rules”, Ch. 5-6.
- Klemperer (1995): “Competition when Consumers have Switching Costs”, Review of Economic Studies.

## Network Effects

- Shapiro and Varian (1999): “Information Rules”, Ch. 7-9.
- Eisenmann (2007): “Platform-Mediated Networks: Definitions and Core Concepts”, HBS 9-807-049.

## Platform Markets

- Rysman (2009): “The Economics of Two-Sided Markets”, Journal of Economic Perspectives.
- Jonathan Levin (2010): “The Economics of Internet Markets”, Section 3.
- Eisenmann (2007): “Platform-Mediated Networks: Definitions and Core Concepts”, HBS 9-807-049.
- Eisenmann and Hagiu (2007): “Staging Two-Sided Platforms”, HBS 9-808-004.
- Eisenmann, Parker and Van Alstyne (2006): “Strategies for Two-Sided Markets”, Harvard Business Review.
- Ellison and Ellison (2005): “Lessons About Markets from the Internet”, Journal of Economic Perspectives.

## Dynamic Pricing

- McAfee (2002): “Competitive Strategy”, Ch. 11.
- Bulow (1982): “Durable Goods Monopolists”, Journal of Political Economy.
- Marmorstein, Rossomme, and Sarel (2003): “Unleashing the Power of Yield Management in the Internet Era: Opportunities and Challenges”, Californian Management Review, 45, 147–167.
- Scott Friend and Patricia Walker (2001): “Welcome to the New World of Merchandising”, Harvard Business Review.

## Reputation Mechanisms

- Dellarocas (2007): “Reputation Mechanisms”, in Handbook on Economics and Information Systems, edited by T. Hendershott, Elsevier.
- Jin and Kato (2006): “Price, Quality and Reputation: Evidence from An Online Field Experiment”, RAND Journal of Economics.
- Morgan and Brown (2006): “Reputation in Online Markets: The Market for Trust,” California Management Review.