

SPRING 2017
AEM 4160: Economics of Advertising
Prof. Jura Liukonyte

HW3

Ground rules for Homework 1-5:

1. HW is due at the beginning of class on the due date designated for each homework (see course website for the list of dates).
2. You should turn in your homework 100% typed. I realize that for some students handwriting is more convenient or efficient, especially when it comes to writing out math equations. However, you should practice typing math formulas in MS Word or other word processing software of your choice.
3. Include a title page listing your name (or names if it is a group work) and homework number.
4. Please staple your sheets. Both your TA and I will look at each homework, so we don't want to lose any of your sheets.
5. If I have specific instructions or rules relating to any individual parts within homework assignments, I will list them there.

Ground rules for HW3:

1. HW3 is due on Thursday **March 16th**, at the beginning of class
2. HW3 blog post should include a *Google trends*, *Google Insights for Search* or *Google correlate* graph drawn by your group from the raw data downloaded from *Google*.
3. HW3 is group work. Please work in groups of 3-4.

PART I

Choose a failed dot-com company. That is, choose to research a company that pursued electronic commerce on the Web, but which has subsequently gone out of business (even if their assets were subsequently acquired by another company). Describe what business they pursued, what they proposed to do for customers, and why they shut down. Your report should be approximately 2-3 pages in length (double-spaced).

Be as specific as you can. For example, instead of saying a rather general statement like "they closed down because they ran out of money," try to describe why they ran out of money. Did they have a viable business plan and expected to make profits eventually? Did they demonstrate any ability to make profits? Did they spend a lot of money on marketing?

Please provide citations for the references you used in your research.

You may find it helpful to know that the Cornell Mann Library has electronic databases of newspaper and magazine articles available online. I have had good luck with both *Lexis/Nexis* and *Academic Search Premier* found under "databases" on the Mann Library website.

PART II

1. Answer the following questions about the HBS case *"Pricing Information: How to Customize Both the Product and Its Price"* by Carl Shapiro and Hal R. Varian (this is actually a chapter excerpt from their book "Information Rules"). Please use your own wording for your analysis.

- a) Describe a typical cost structure of information markets.
- b) What implications for the market structure does this cost structure have for information industries?
- c) Why do we observe so many information goods provided for consumers for free even though they are not free to produce?
- d) What kind of pricing strategies emerged in information industries and why?
- e) Pick two "information goods" that provide essentially the same services/products. What is their pricing strategy? How do they differentiate themselves from each other?

2. Answer the following questions about the HBS case *"Netflix: Pricing Decision 2011"*. Please use your own wording for your analysis and use the numbers provided in the case, where appropriate:

- a) How did Netflix cost structure change as the company moved from movies on disk-through-the-mail to streaming?
- b) What were the strategic uncertainties facing Netflix as they experimented with streaming video?
- c) Customers had a bad reaction to the announcement of monthly fees for streaming video; compared to previous prices for movies on disk, (which are necessarily constrained by the time to mail back and get new disks) the price seems fair – why was there a backlash?

PART III

Write a blog post. Blog assignment guidelines are on the course website. Also check the blog website www.overtcollusion.com to see examples of good blog posts.

Specific to HW3: Your analysis must include a [Google Trends](#), [Google Insights for Search](#) or [Google Correlate](#) graph. In particular:

- a) You will need to download raw data in .csv format. You can easily open this file format in Excel.
- b) Graph the downloaded data yourself. Make sure to customize the graph so it looks tidy, compact and clear (which most certainly is not the graph that Excel "spits out" by default). Use this assignment as practice for how to present data in the most coherent, neat and efficient way with Excel graphs (you will need this practice for the final presentation!).

Please explore various Excel built-in options to arrive at a visual representation of a graph that has the most professional look. You can also find lots of tutorials and suggestions on how to improve the look of your graphs on the internet.

- c) Do not present just any graph, simply because it is a mandatory part of this assignment. Your graph needs to make a point, which needs to be directly related to your blog post content. Use this graph (or graphs) to illustrate or visually draw attention to the point that your analytical blog post is making.

Potential topics of choice for this HW assignment:

1. Collusion, cartels
2. Tacit Collusion
3. Pricing Information
4. Properties of Information goods
5. Online Retailers
6. Online Music Markets
7. Electronic commerce companies and their pricing strategies
8. In case you are unsure if your selected topic fits, email me and we will discuss!
9. Other topic that relates to issues we discussed in class. In case you are unsure if your selected topic fits, email me and we will discuss!

IMPORTANT: You have to submit your blog post in two ways:

- 1) as part of your typed and printed HW3 and
- 2) emailed to your TA ps842@cornell.edu. Please make sure that the emailed post contains your name (or the names of group members).