

Economics 489(L01) (Economics of the Movie Business)

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Lecture Location: SS113
Lecture Days/Time: TR 0900-1145

Office: SS 332
Office Hours: TR 1145-1230

Summer 2018

Course Description (from University Calendar):

In this course we use economics to understand the organization of production, distribution, and exhibition in the movie industry. The focus of the course is on the economics of contracts – in particular how information and uncertainty shape the structure of economic transactions. The historical and institutional illustrations are set in the context of Hollywood.

Course Objectives/Learning Outcomes:

Students will learn to apply intermediate microeconomic theory at the level of ECON 357 and basic economic statistics at the level of ECON 395 to understand the organization of the motion-picture industry.

Students will learn and be able to explain how information and uncertainty shape the structure of economic transactions with particular reference to the motion-picture industry.

Students will learn to analyze the business practices that have evolved in the motion-picture industry, including but not limited to block booking, blind bidding, master license agreements, and temporal and geographic clearances.

Students will learn statistical tools that are particularly useful in analyzing data and making inferences in a market dominated by 'superstars' in which the outcome distribution has a winner-take-all characteristic.

Course Outline:

Class Meeting 1:

- Course overview and administration.
- [\[Blackboard Notes\]](#) What distinguishes the movie business from other industries?
- Squire: Introduction, pp. 1-14.
- Not required reading: Litman Chapters 1 and 2.

Class Meeting 2:

- [\[Blackboard Notes\]](#) Ralph Cassady Jr. "[Monopoly in motion picture production and distribution: 1908-1915.](#)" *Southern California Law Review*, vol 32, pp. 325-390, 1959. Reprinted in Kindem (1982), Chapter 3.
- Janet Staiger. "[Dividing labor for production control: Thomas Ince and the rise of the studio system.](#)" *Cinema Journal*, 18(2): 16-25, 1979. Reprinted in Kindem (1982), Chapter 5.
- Gorham Kindem. "[Hollywood's movie star system: A historical overview,](#)" in Kindem, G. (ed.) *The American Movie Industry*. Southern Ill U Press, pages 79-93, 1982.
- Andy Hanssen. [Revenue Sharing in Movie Exhibition and the Coming of Sound](#). Preprint of paper to appear in *Economic Inquiry*. [Not required]
- Moul, C. [Evidence of qualitative learning-by-doing from the advent of the 'talkie'.](#) *Journal of Industrial Economics*, 2001. [Not required.]

Class Meeting 3:

- [\[Blackboard Notes\]](#) Simon Whitney. "[Antitrust policies and the motion picture industry,](#)" in *Antitrust Policies: American Experience in Twenty Industries*. Twentieth Century Fund Inc., pp. 145-195, 1958. Reprinted in Kindem (1982), Chapter 10.
- [\[Blackboard Notes\]](#) A. De Vany and Ross Eckert, [Motion Picture Antitrust: The Paramount Cases Revisited](#) *Research in Law and Economics*, Vol. 14, (November 1991) 51--112.

Class Meeting 4:

- Review of history, evolution and organization of the industry and the major antitrust cases. A. De Vany and Hank McMillan, [Block booking, vertical integration, and the studio system: Were the Paramount antitrust decrees good for the movies?](#) *American Journal of Law and Economics*, 2004.
- [\[Blackboard Notes\]](#) The Creators: Squire: Chapters I.
- [\[Blackboard Notes\]](#) The Property: Squire: Chapters II.

Class Meeting 5:

- The Money: Squire Chapters III.
- The Management: Squire Chapters IV.
- The Deal: Squire Chapters V.
- [Blackboard notes handed out in class](#). May also be available here: [Guide to Deal Structures by Mark Weinstein](#).

Class Meeting 6:

- Squire Chapters IV. Mark Weinstein, [Profit sharing contracts in Hollywood: Evolution and Analysis](#). *Journal of Legal Studies*, vol 27, January 1998.

Here's a link to an actual contractual dispute: The story of [Art Buchwald v Paramount](#).

- Production (The Shooting): Squire Chapters VI.
- Marketing (The Selling): Squire Chapters VII.
- Revenue Streams: Squire Chapters VIII
- Theatrical Distribution & Exhibition: Squire Chapters IX and X.
- [optional] Darren Filson et al., [At the movies: Risk sharing and the economics of exhibition contracts](#). Working paper, Claremont Graduate University (2001).

Class Meeting 7:

- **Quiz #1**
- A. De Vany and W. D. Walls, [Uncertainty in the Movies: Does Star Power Reduce the Terror of the Box Office?](#), *Journal of Cultural Economics*, Vol. 23, Number 4 (November 1999) 285-318.

Class Meeting 8:

- A. De Vany and W. D. Walls, [Motion Picture Profit, the Stable Paretian Hypothesis, and the Curse of the Superstar](#), *Journal of Economic Dynamics and Control*, 2004. [\[Presentation Slides on Stable Paretian Paper\]](#)
- Frank Rusco and W. D. Walls. [Independent film finance, pre-production agreements, and the distribution of film earnings](#). In V. Ginsburgh, editor, *Economics of the Arts and Culture*, Elsevier, Amsterdam, 2003. [\[Presentation Slides on Film Finance Paper\]](#)

Class Meeting 9:

- Home Video & Consumer Products: Squire Chapters XI and XII.
- A. De Vany and Cassey Lee, [Quality Signals in Information Cascades and the Distribution of Motion Picture Box Office Revenues](#), *Journal of Economic Dynamics and Control*, 25 (2001) 593--614. [\[version of paper with all Tables and Figures\]](#)
- A. De Vany and W. D. Walls, [Bose-Einstein Dynamics and Adaptive Contracting in the Motion Picture Industry](#) *The Economic Journal* (November 1996) 1493--1514. [\[Presentation Slides on Bose-Einstein Paper\]](#)
- [optional] Klaus K. Kultti and Paavo A. Miettinen "Herding with Costly Observation". <http://www.bepress.com/beite/vol7/iss1/art28>

Class Meeting 10:

- [optional] A. De Vany and W. D. Walls. [The Market for Motion Pictures: Rank, Revenue, and Survival at the Box Office](#) *Economic Inquiry*. Vol. 25, Number 4, (October 1997) 783--797.
- [optional] Darrel Filson. [Dynamic common agency and investment: The economics of movie distribution](#). *Economic Inquiry*, October 2005.

- A. De Vany and W. D. Walls. [Does Hollywood Make Too Many R-rated Movies? Risk, Stochastic Dominance, and the Illusion of Expectation.](#) *The Journal of Business* (July 2002).
- A. De Vany and W. D. Walls, [Movie Stars, Big Budgets, and Wide Releases: Empirical Analysis of the Blockbuster Strategy.](#) *Asian Economic Review*, 2005. [[Presentation Slides](#)]

Class Meeting 11:

- A. De Vany and W. D. Walls, [optional] [Quality Evaluations and the Breakdown of Statistical Herding in the Dynamics of Motion-Picture Box-Office Revenue.](#) *Asian Economic Review*, 2004. . [[Presentation Slides](#)]
- [optional] W. D. Walls, [Superstars and heavy tails in recorded entertainment: Empirical analysis of the market for DVDs.](#) *Journal of Cultural Economics*, 34(4):261-279, November 2010.
- W. D. Walls and J. McKenzie. [The changing role of Hollywood in the global movie market.](#) *Journal of Media Economics*, 25(4):198-219, December 2012.

Class Meeting 12:

- International: Squire Chapters XIII.
- The Future: Squire Chapters XIV.
- [Piracy Comic Book.](#)
- W. D. Walls, [Cross-country analysis of movie piracy.](#) *Applied Economics*, 40(5):625-632, 2008. [[Presentation Slides on Movie Piracy Paper](#)]
- W. D. Walls and P. J. Harvey. [Digital Pirates in Practice: Analysis of Market Transactions in Hong Kong's Pirate Software Arcades.](#) *International Journal of Management*, 23(2):207-214, June 2006.
- A. De Vany and W. D. Walls. [Estimating the effects of movie piracy on box-office revenue.](#) *Review of Industrial Organization*, 30(4):291-301, June 2007.
- J. McKenzie and W. D. Walls. [File sharing and film revenues: An empirical analysis.](#) *The B.E. Journal of Economic Analysis & Policy*, 16(1):25-57, January 2016.

Class Meeting 13:

- Review
- Quiz #2

Prerequisites/corequisites:

ECON 357 and ECON 395.

Required Textbook(s):

- Squire, J. (ed.), *The Movie Business Book*, Simon and Schuster, 3rd edition. **[Required]**

Optional Textbook(s):

- Walls, W. D. *Hollywood Models*. Lambert Academic Publishing, 2009. [Optional]

Book(s) on Reserve:

- Bach, S., *Final Cut: Dreams and Disasters in the Making of Heaven's Gate*, William Morrow, 1985.
- Cones, J., *The Feature Film Distribution Deal*, Southern Ill. University Press, 1997.
- Dale, M., *The Movie Game*, Cassell, 1997.
- Goldman, William, *Adventures in the Screen Trade*, Warner Book, 1983.
- Harter, Andrew, *How to Make an Action Movie for \$99*, Maynestream Publications, 2001.
- Kindem, G. (ed.), *The American Movie Industry*, Southern Ill. University Press, 1982.
- Litwak, M., *Reel Power*, Silman-James, 1986.
- Litwak, M., *Dealmaking in the Film and Television Industry*, Silman-James, 1994.
- Lukk, T., *Movie Marketing*, Silman-James, 1997.
- Schatz, T., *The Genius of the System*, Pantheon, 1988.
- Squire, J. (ed.), *The Movie Business Book*, Simon and Schuster, second Canadian edition. 1992
- Vogel, H., *Entertainment Industry Economics*, Cambridge University Press, 1998, 4th edition.
- McNeil, L. and J. Osborne, *The Other Hollywood*, Regan Books/Harper Collins, 2005.
- Daniels, B., D. Leedy, and S. Sills, *Movie Money*, Silman-James, 1998.
- Walls, W. D. *Hollywood Models*. Lambert Academic Publishing, 2009.

Desire2Learn:

This course will make use of the Desire2Learn (D2L) platform. Students who are registered in the course can log on at <http://d2l.ucalgary.ca> through their student centre. Please note that D2L features a class e-mail list that may be used to distribute course-related information. These e-mails go to your University of Calgary e-mail addresses only.

Grade Determination and Examination Details:

The overall grade will be determined on the basis of your performance on two in-class midterm exams and one term paper/project as follows:

In-class Quizzes (2 @ 30% each)	60%
Term Paper	40%

There will be no final examination.

All work is to be marked on a numerical (percentage) basis. The course grade is calculated using the weights indicated above. As a guide to determining standing, these letter grade equivalences will apply:

A+	99-100	B	82-87	C-	70-71
A	92-98	B-	80-81	D+	68-69
A-	90-91	C+	78-79	D	60-67
B+	88-89	C	72-77	F	0-59

Deviations from the conversion chart listed above will only be made if it *improves student grades*.

Non-programmable calculators **WILL** be allowed during the writing of tests.

Tests **WILL NOT** involve multiple choice questions.

A passing grade on any particular component of the course is not required for a student to pass the course as a whole.

As per the Writing Across the Curriculum Statement in the Calendar, writing and grading thereof will be a factor in the evaluation of student work.

Any student work which remains undistributed after the last day of classes will be available to students through the instructor's office during his office hours.

The exact dates for the in-class midterm examinations will be June 24 and August 14.

THERE WILL BE NO MAKEUP OR DEFERRED QUIZZES/TESTS/EXAMS under any circumstances, nor may the quizzes/tests/exams be written early. Students unable to write the quizzes/tests/exams because of documented illness, family emergency, religious observance, or university-sanctioned event will have the weight shifted to the final examination; otherwise a grade of zero will be assigned.

Reappraisal of Grades and Intellectual Honesty:

For reappraisal of graded term work, see Calendar I.2

<http://www.ucalgary.ca/pubs/calendar/current/i-2.html>

For reappraisal of final grade, see Calendar I.3

<http://www.ucalgary.ca/pubs/calendar/current/i-3.html>

Statement of Intellectual Dishonesty, see Calendar K.4

<http://www.ucalgary.ca/pubs/calendar/current/k-4.html>

Plagiarism and Other Academic Misconduct, , see Calendar K.5

<http://www.ucalgary.ca/pubs/calendar/current/k-5.html>

Academic Accommodations:

The student accommodation policy can be found at: ucalgary.ca/access/accommodations/policy.

Students needing an accommodation because of a disability or medical condition should communicate this need to Student Accessibility Services in accordance with the Procedure for Accommodations for Students with Disabilities ucalgary.ca/policies/files/policies/student-accommodation-policy.

Students needing an Accommodation based on a Protected Ground other than disability should communicate this need, preferably in writing, to the course instructor.

Important Dates:

Please check: <http://www.ucalgary.ca/pubs/calendar/current/academic-schedule.html>

Student Organizations:

Faculty of Arts Students' Association (F.A.S.A.):

Economics Department Representative

Office: SS 803, E-mail: econrep@fasaucalgary.ca and Web: www.fasaucalgary.ca.

Society of Undergraduates in Economics:

<https://www.ucalgarysue.com/>.

Society of Undergraduates in Economics is a student run organization whose main purpose is to assist undergraduate economics students to succeed both academically and socially at the University of Calgary. Services include access to the exam bank, career events such as Industry Night and information sessions, mentorship programs, and social events for members. They invite you to join by contacting SUE at societyofundergradsineconomics@gmail.com.

Faculty of Arts Program Advising and Student Information Resources:

- Have a question, but not sure where to start? The Arts Students' Centre is your information resource for everything in Arts! Drop in at SS102, call them at 403-220-3580 or email them at artsads@ucalgary.ca. You can also visit the Faculty of Arts website at <http://arts.ucalgary.ca/undergraduate> which has detailed information on common academic concerns, including program planning and advice.
- For registration (add/drop/swap), paying fees and assistance with your Student Centre, contact Enrolment Services at 403-210-ROCK [7625] or visit them in the MacKimmie Library Block.
- Online writing resources are available at <http://www.ucalgary.ca/ssc/resources/writing-support>.

Evacuation Assembly Point:

In case of an emergency evacuation during class, students must gather at the designated assembly point nearest to the classroom. The assembly point for this classroom is the Professional Faculties Food Court.

Safewalk:

The Safewalk program provides volunteers to walk students safely to their destination anywhere on campus. This service is free and available 24 hrs/day, 365 days a year. **Call 403-220-5333.**

Freedom of Information and Protection of Privacy (FOIP) Act:

Personal information is collected in accordance with FOIP. For more information, see <http://www.ucalgary.ca/legalservices/foip/foip-hia>.

Internet and Electronic Communication Device information:

The use of cell phones for any purpose in class is prohibited. Computers and tablets may be used for note-taking only.

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