

Questions we'll encounter this  
semester in 14.27

# A Taste of What We'll Do This Semester

First a couple of philosophical points:

**Theory matters**-Models help us think clearly, make consistent arguments, and create simple worlds that we understand very well to focus on particular relationships.

**Institutions matter**-One of the great lessons of industrial organization is that one cannot paint with too broad a brush. E.g. some markets where quality is hard to perceive and reputation matters and others not.

- Network externalities
- Scale economies
- Match quality

# Group Purchasing

- This didn't work in 2000

January 4, 2001 3:15 PM PST

## Group-buying site Mercata to shut its doors

By Greg Sandoval and Dawn Kawamoto  
Staff Writers, CNET News

Paul Allen

Most of you are too young to remember two highly publicized Internet start-ups funded by big names, Mercata and Mobshop.

They both folded in 2001, citing the inability to force seller discounts.

### Related Stories

Value America files for bankruptcy, lays off 185

August 11, 2000

Mercata, a group-buying site backed by the venture capital firm of Microsoft co-founder Paul Allen, said Thursday it will cease operations at the end of the month.

The Bellevue, Wash.-based company, which withdrew a \$100 million initial public offering Wednesday, said in a statement

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## MobShop, a Group-Buying Site, Drops Its Consumer Business

By LAURIE J. FLYNN  
Published: January 15, 2001

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MobShop Inc., one of a handful of companies offering group buying on the Internet, is closing its consumer operations, on the heels of the recent announcement that its chief competitor, Mercata Inc., was going out of business.

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 PRINT

# Group Purchasing

- What's different now?
- What economic models could explain the differences?
- Look at economic models of monopsony power and buyer size discounts.
- Look at particulars of group purchasing business plans, such as Groupon, to try to answer some of these differences.

# Sponsored Search

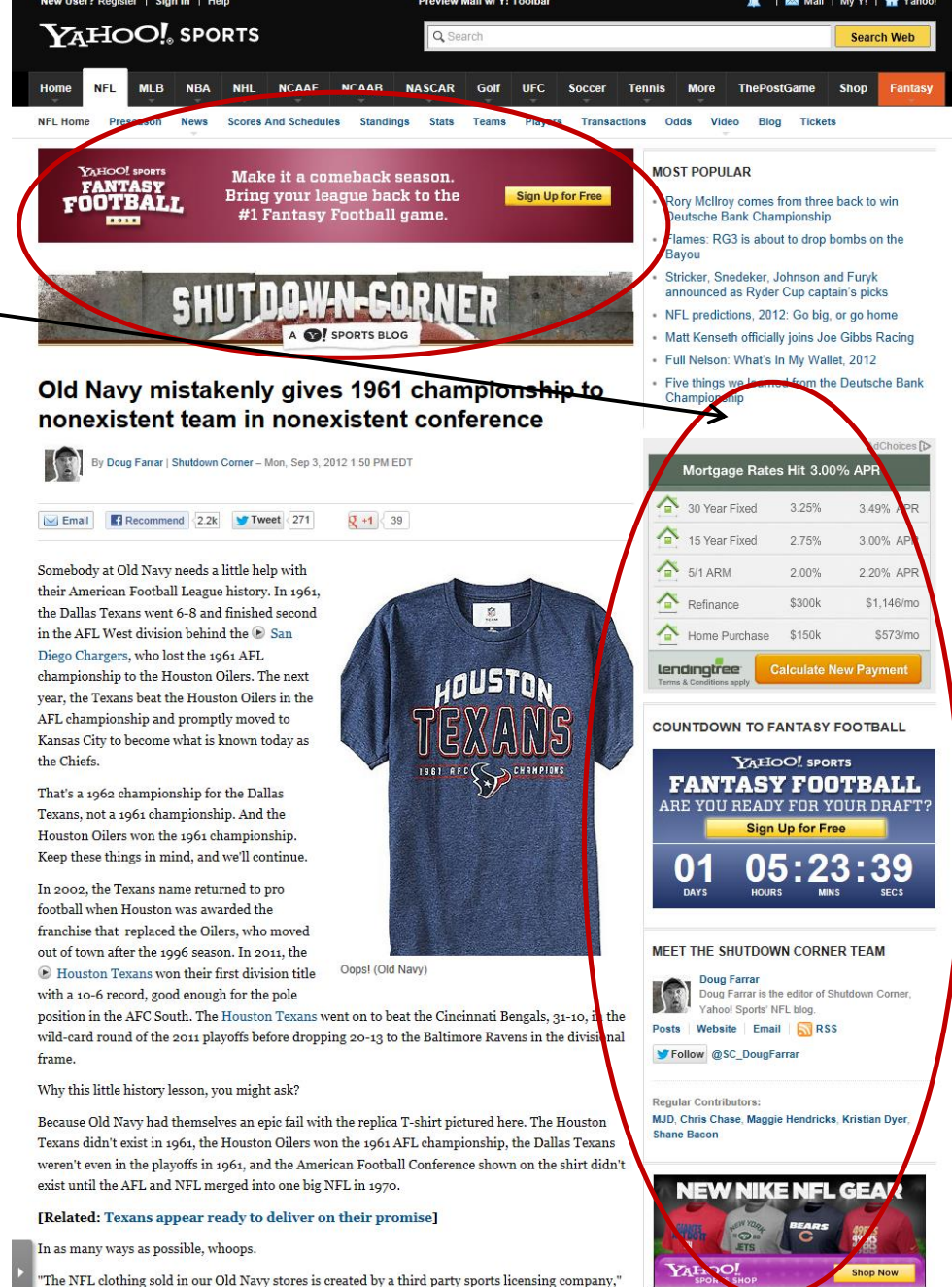
- How do Google and Bing sell ads?
- Are they good at it?
- Type “turkey plates Thanksgiving” into browser.
- Receive organic or algorithmic search results and sponsored search results at top (typically  $\leq 3$ ) and down right side (typically  $\leq 8$ )
- What is the mechanism by which these ads are sold?
- How is it different from ads in magazines, say?

The screenshot shows a Google search for "turkey plates thanksgiving". The search bar is at the top with the text "turkey plates thanksgiving" and a search button. Below the search bar, the text "Search" and "About 1,560,000 results (0.34 seconds)" are visible. On the left side, there is a navigation menu with options: Web, Images, Maps, Videos, News, Shopping, More, Cambridge, MA, Change location, and Show search tools. The main content area is divided into two sections. The top section is titled "Ads related to turkey plates thanksgiving" and contains three sponsored ads: 1. "Dinnerware Holiday | Kohls.com" with a 5-star rating and 226 seller reviews, advertising dinnerware. 2. "Thanksgiving Turkey Plate | potterybarn.com" advertising a turkey plate. 3. "Thanksgiving Turkey Platter | Target.com" advertising a turkey platter. The bottom section is titled "Why these ads?" and contains four more sponsored ads: 1. "Shop for turkey pl..." with a "Sponsored on Google" label and a "shopping google.com" link. 2. "Williams Sonoma Set..." with a price of \$219.99 on eBay. 3. "Pfaltzgraff White Thank..." with a price of \$30.00 on Etsy. 4. "Turkey Plates - Compare Prices, Reviews and Buy at Nextag - Price ..." with a link to "www.nextag.com/turkey-plates/products-html".

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# Display Ads and Privacy

- How do firms like Yahoo serve these ads and determine their effectiveness?
- What do consumers actually think?
- Different type of ads are sold differently, function differently, but some similarities to sponsored search.



These ads are displayed.

Click on this article from Yahoo homepage.

We've all had the experience while web surfing or on Facebook or Gmail, that a creepily relevant ad is served—our first reaction is “yuck”, but sometimes it is precisely the ad we want at that moment.

What can we say about consumer reaction to these ads?

# Auction or Posted Price?

- What factors determine whether a product is sold through an auction or by posted price?
- Should consumers prefer one over the other?

4 vintage Johnson Brothers His Majesty Turkey Dinner Plates  
**\$160.99**  
or Best Offer  
2 Photos

NEW LISTING Christmas Village Dinner Serving Plate Turkey Ham Johnson Brothers  
**\$129.95**  
Buy It Now  
Free shipping  
3 Photos

Woods Enoch Burslem England Blue / Turkey Dinner Plate 9"  
**\$9.95**  
5d 4h left (Sunday, 9PM)  
1 bid  
2 Photos

9 NEW Unused HIS MAJESTY Turkey Transferware Johnson Bros Dinner Plates  
**\$37.00**  
5d 4h left (Sunday, 8PM)  
6 bids

Pottery Barn Fresco Turkey Salad Plates Set Of 4 NIB~BEAUTIFUL~  
**\$124.99**  
Buy It Now  
Free shipping  
FAST 'N FREE  
Get it on or before Sat, Sep. 6  
Top Rated Plus  
4 Photos

NEW LISTING WILLIAMS SONOMA CHRISTMAS THANKSGIVING TURKEY SALAD PLATES SET OF 4 NEW  
**\$64.99**  
Buy It Now  
5 Photos



# Sales Taxes

- As many of you probably know, firms are not required to collect sales tax in states where they do not have a physical presence, their purchase is de facto tax free.
- How important is avoiding sales tax to consumers? And how has this tax-preferred status of online retail affected traditional retailers?
- Have retailers distorted location decisions to take advantage of tax-preferred status? Interestingly, possible broader, general equilibrium effects.
- How might the legal landscape change?

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14.27 Economics and E-Commerce  
Fall 2014

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