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
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.

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

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

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.
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 ≤ 3) and down right side (typically ≤ 8)
• What is the mechanism by which these ads are sold?
• How is it different from ads in magazines, say?

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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.
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?
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?