Rough Plan

Introduction

- The information goods and services sector has been one of the fastest growing sectors in recent decades.
- However, the sector has been deeply dependent on loans
- The global financial crisis removing the availability of loans and plunging almost every developed country into recession

More Affected

- A reduction in availability of loans will make it harder for new businesses to break into the sector, increasing the succeptability of the sector to monopolise.
- After the economic bubble of 2008 bursts, many people will recall the dot com bubble bursting in the early 2000s. This will lead a lot of investors to be wary of the information goods and services industry and the reverberations of this will cause a large drop-out of investment. This will stunt growth and development across the sector as a whole.
- Information goods and services do not have a very good reputation as secure after the dot com bubble bursting in 2002. In light of this, investments in information goods and services are likely to be considered subprime. In light of the events of 2008, many investors will notice that
- The crisis has disproportionately affected the affluent. Many information goods and services are targeted at affluent people – people with internet connectivity and office workers. This means that the target clientele of information goods and services has dramatically decreased in wealth.
- During a recession, people like to have a higher liquidity than outside of a recession. Therefore, even though the affluent clientele of the technology companies may not significantly decrease in wealth, their expenditure will significantly decrease. This will make growth of the technology sector very difficult.
- A lot of companies in the information goods and services sector follow the "startup" business model, where a large amount is invested and the company gradually loses that money over the following years before turning a profit later. This business model will not be viable until the global financial and lending market becomes more risk-taking. This will mean growth in the sector will decrease.
- Lack of availability could lead to an increase in piracy – the piracy rate is about 20% before the crisis.

Less affected

- Many businesses in the information sector have very high lock-in; this means its very hard for businesses to stop using existing products. This means there will not be large swathes of clients abandoning companies.
- Information goods and services are characterised by high setup costs but low running costs and low marginal costs.

- The marginal costs per customer are fairly low. Additionally, the fixed costs are relatively low. Most of the expenses of companies in the information goods and services sector comes from employees and development. Therefore if a company starts losing clients it's easier for it to make temporary cuts than companies in other sectors. Consider a car manufacturer. It cannot make cuts as each employee does an essential job even if the total number of cars they want to make decreases. This is not the same as an existing information goods and services company – where the company can cut jobs and just shift people over fairly easily.

- This question refers to the global financial crisis
- A credit crunch is when banks reduce lending
- This means they usually stop investing in risky investments – as they can't afford to lose money
- Usually this reduces the available funds for small-medium sized businesses
- The information sector is very prone to monopoly as there are both strong "network effects" and a high barrier to entry.
- Therefore most of the revenue and work in the information sector is very concentrated in a few large companies – therefore information is more likely to have access to funds than other sectors
- However, the lack of availability of funds will also increase how central business is in the information sector! As smaller firms will be unable to get funding to challenge the larger firms.
- The "startup" model where a company gets pumped full of cash by optimistic lenders and loses money for several years before it makes anything will stop temporarily as banks and lenders will be unwilling to take the risk. The information goods and services sector has a higher proportion of startups than other sectors.
- Information goods and services have a very high lock-in – this means that many users will find it more expensive to change or stop using them than to continue using them. This means information goods and services will not be very affected.
- They also have negligible marginal costs and fairly low fixed costs; how much does it cost Microsoft to maintain office? It'll be very hard to bankrupt existing information goods and services companies.
- The global financial crisis more severely affected the affluent – who spend more on luxuries. Therefore expenditure on luxuries and expensive items will decrease, which will adversely affect businesses who deal in that. However, this will not affect information goods and services.
- Often, switching to a digital system can save money. In an effort to cost-cut, many businesses may make the switch, increasing revenue for information goods and services companies.
- However, with less disposable income the amount of money companies are willing to spend on services will decrease. This means that companies existing discrimination will not work – therefore there will be a very short period where no company will buy anything.
- People want a certain level of liquidity. In a recession, liquidity preference rises (people want more savings) and therefore people want to spend less.

- Innovation is expensive and requires a lot of investment. The information goods and services sector requires innovation – and for that it needs belief and loans – due to the credit crunch, those loans will vanish and a lot of companies will struggle.
- Prospect theory: people really dislike losing money but gains are sublinear. Therefore banks will stop investing in potentially risky ventures and pour all their money into sectors which are safe.

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