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Editorial

The economics of digital media markets ☆

This first issue of *Information Economics and Policy* for 2012 brings together a series of contributions related to the economics of digital media markets. The special issue covers eight papers, each highlighting areas where digital technology is altering markets in ways not fully captured by existing research.

We see three key themes in the papers. The first is the continuing role of intellectual property rights and piracy in markets for creative goods. Piracy, especially file-sharing, has received much research attention in recent years, including in a 2010 special issue of IEP (Special Issue: Digital Piracy, 22(4) (2010)). Most work on this topic to date has centered on demand, especially the substitution of pirated work for original content and associated effect on firm revenues. In the current issue, the emphasis is on supply. Here we have two empirical contributions on the effect of digital technology on the market for music. Mortimer et al. (2012) considers how free redistribution of digital products affects the supply of live performance, finding that while file sharing reduces recording sales, it can increase demand for live performance. This is an important finding since these live performances tend to be highly profitable.

Handke (2012) offers evidence that file-sharing has not reduced the supply of new titles in the market for recorded music in Germany. The paper also indicates that total listening time has not fallen in the file-sharing era. It may be that the growing importance of products complementary to recordings in the music industry documented by Mortimer et al. (2012) can explain some of this continuance in supply. Taken together, these two papers provide important new evidence that the overall effects of digitization on music markets may not in the long-run be as devastating as sometimes predicted.

A theoretical contribution on this theme, Piolatto and Schuett (2012), emphasizes the potential asymmetric effect of piracy, which may benefit the most popular artists at the expense of those less well known, with potential impacts on variety in the market. Here again the effect is due to the presence of a second source of revenues for artists, such as live concerts, advertising or TV appearances. The mechanism in this paper suggests that file-sharing can contribute to superstar effects in digital media markets, a topic considered by Weeds (2012). Weeds offers a model that illustrates how supply-side changes wrought by digitization, most notably changes in the cost of producing quality, can support both long-tail and superstar effects.

A second theme is the special issue is the role of transaction costs in digital media markets and the institutions that have arisen to mediate these costs. George and Hogendorn (2012) emphasizes the role of search costs in online content markets, showing how search engines and aggregators affect media consumption when consumers have an appetite for variety but face costly search. The paper links new media institutions to consumption of more sources, which is shown to reduce the importance of targeting in the advertising market. Gans (2012) similarly emphasizes the role of platforms in mitigating transaction costs in digital markets, but in this case the focus is content or "application" pricing. Gans (2012) shows that under plausible conditions, platform prices are driven to zero, giving rise to the new contracting mechanisms for applications observed in the market. Piolatto and Schuett's (2012) piracy paper is also grounded on a model of heterogeneous consumer transaction costs, suggesting an important but largely unexplored relationship between transaction costs and market structure in digital media.

A third theme in the special issue is the role of digital intermediaries in the market for advertising. Edelman and Gilchrist (2012) explores the effect of disclosing explicitly that sponsored search results are, in fact, advertisements. Disclosure is shown to affect consumer behavior in a laboratory setting, which overcomes the standard endogeneity concerns about measuring the effects of

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advertising on consumer behavior. Results show that disclosure disproportionately affects behavior among the elderly, the less educated and those with less online experience. This is important because this result suggests that digital media markets may be increasingly blurring the boundaries of content and advertisements. This also relates to George and Hogendorn's (2012) findings on the relationship between intermediation and the value of ad targeting, highlighting how digitization is increasingly driving the nature of content produced.

Hong (2012) explores how digital intermediaries alter opportunities for traditional media platforms to advertise their content, covering two key themes in the issue. Hong (2012) describes how newspaper adoption of the social media service Twitter relates to online readership. The paper reports a positive correlation between the timing of Twitter adoption and online newspaper readership. Hong (2012) also finds evidence that Twitter adoption is associated with more diffuse readership, reinforcing the notion in George and Hogendorn (2012) and Weeds (2012) that digital intermediaries can alter the distribution of consumption.

The papers here together suggest worthwhile avenues for future research. A full understanding of file-sharing and optimal intellectual property protection must take into account the simultaneous supply- and demand-side effects of digital technology, and also welfare effects on consumers heterogeneous in their tastes for content and for quality. The papers in this issue offer a beginning, but a comprehensive understanding is outside the extant literature. Empirical work to document the net effects of intermediaries on media consumption is also needed to resolve the countervailing effects of lower entry costs in digital media markets but also the growing role of intermediaries in channeling content to users. The links between the supply of digital content and demand for advertising, especially in the presence of intermediaries, are also poorly understood. *Information Economics and Policy* welcomes submissions on these and related topics and looks forward to furthering the economic understanding of these markets.

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