93-710 Cultural Economics
Course Syllabus

INSTRUCTOR

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COURSE ORGANIZATION

Class meets for lecture and discussion each Monday and Wednesday afternoon from 1:30-2:50 PM in HbH 236.

There will be three non-cumulative exams tentatively scheduled for September 29, November 3 and during the final exam period as specified by the College.

The final grade is based on the three exams (30 percent each), homework assignments which will be given throughout the semester (10 percent), and, at the discretion of the student, on optional paper. Problem sets are due at the beginning of class on the specified day. Only assignments that are submitted on time will be graded. The primary goal of the problem sets is to help you prepare for the exams.

The optional paper will be discussed in class. Students choosing the paper option will have their exams reweighted to 25 percent each with the paper receiving a weight of 15 percent.

READINGS


There are a large number of additional readings required for the course. These are listed in this course outline and posted on the blackboard site. Readings from the Frank and Bernanke text provide more detailed discussion of some of the economic theory developed in class. The remainder of the additional readings focus on the application of economic principles in the context of arts and culture organizations and markets. The objective is to give students a firm grounding in the basic economic forces which influence the production and consumption of cultural goods and services.
Resources for outside readings include:


These additional readings notwithstanding, the primary focus of the course is on the basic principles of microeconomic theory and the vast majority of the assigned work will be related to those principles.

**COURSE CONTENT**

Microeconomics is the study of how individuals and organizations make choices, and how these choices interact in markets and society. Economics shares with other behavioral sciences the general goal of explaining and predicting human behavior – whether that behavior is reflected in the actions of individuals, institutions, organizations or governments. The distinguishing feature of the economic approach is the emphasis on rational decision making under conditions of scarcity. Because of the central role of markets and the price system in describing the outcome of individual and organizational decision-making, microeconomics is often called “price theory.”

This course is an introduction to the basic concepts and tools of microeconomics and their application in the context of arts and culture. We study how markets work (or why they might fail). In doing so, we also seek to understand the primary economic influences which help determine how much and what type of cultural goods and services get produced and consumed, how markets for these goods and services operate, what the efficiency characteristics of the markets are, and why production occurs in the particular types of organizations represented in the various arts and culture sectors. We also explore the economic rationale for government intervention in markets and, by extension, the application of microeconomics to the analysis of the effects of public policy on arts markets and the welfare of society in general.

By the end of this term you should:
• develop a deep understanding of a small number of core concepts of microeconomics that are essential to good managerial decision making and informed analysis of any economic issue.
• develop the ability to apply key economic concepts to understand how markets and organizations in the arts and culture sector function.
• develop an ability to use key economic ideas in evaluating public policies – particularly arts policy. You should leave this course with a basic understanding of what types of government intervention benefit society. You also will be informed about a number of current issues confronting policy makers.
• develop an ability to critically analyze economic arguments put forth in public policy and management debates. For instance, you should be able to read and evaluate general material in popular periodicals such as the New York Times, the Wall Street Journal, or the Economist.

REQUIREMENTS

There are no prerequisites for this course. However, we make extensive use of graphs and basic algebra. It is assumed that you are comfortable with these tools. You are encouraged to work in groups on the homework problem sets. While the problems may be worked on in groups, you must hand in your own copy of the answers written in your own words.

Students are asked to read the suggested section of the text and assigned readings prior to the class meeting.

POLICY ON ACADEMIC MISCONDUCT

There will be several assignments as part of the course. You are permitted (indeed, encouraged) to work in groups on the homework assignments. This collaboration should take the form of working together to understand the question and discuss the answer. However, you may not copy another student’s answers for any assignment nor allow your answers to be copied. You must submit the answers in your own words constructed independently. Other than the homework, collaboration is NOT permitted on any other assignment in this class.

If you copy something as part of any graded submission and fail to properly reference it or to acknowledge that it is not your own creation, you will be considered to have plagiarized that material. You are responsible to know what proper referencing means. The material provided to you by the College as part of your orientation contains this information. If you have any questions, ask me or the program director prior to making a submission.

Of course, collaboration is not permitted on any exam or paper and every student is responsible to know and abide by all policies regarding academic misconduct of the Heinz College.
If you are found to be cheating, plagiarizing or engaged in any form of academic misconduct as defined by the Heinz College in the preparation of materials that are evaluated for grading purposes you will automatically be failed in the course. There is no minor form of cheating and there will be no exceptions made to this penalty. In addition, you will be referred to the Dean for additional disciplinary action, up to and including expulsion from the school. If you find this penalty to be too severe as a matter of principle I certainly respect that but you should not take this course. If you are required to take this course then you must either accept this course policy or request that your program director find another alternative for you. Whether he or she does that is a matter of their judgment and by no means a promise of the College.

GRADING

The dean of the Heinz College requires that grades given by a faculty member generally conform to a specified adopted by the faculty curve. See your program handbook (http://www.heinz.cmu.edu/current-students/student-handbook-forms/index.aspx) for details of this curve. The prescribed average grade for this class is 3.3-3.4. I will attempt as nearly as possible to conform to this requirement given the constraints imposed by the size of the class.

As discussed above there will be three in-class, equally weighted exams in the course. There will also be five or six homework assignments to turn in. These will count for Homework will be graded only on a completed/not completed basis (+/-). However, answer keys will be distributed for all homework assignments and they will be the subject of review sessions. Finally, an optional paper may be done at the discretion of the each student. The weighting scheme for these assignments is described in the first section of this syllabus.

FEEDBACK

I welcome your feedback before, during and after the course. I am open to suggestions about changes in content, style or format for the class. Honest input is very valuable to me. You have my word that there will be no consequences for your grade as a result of complaints or suggestions brought to me about the class. Still, while I think direct conversation is always the best, I do understand that students can sometimes feel uncomfortable presenting those issues to an instructor. In those circumstances I recommend that you bring issues to the attention of your program director so that she can convey them anonymously to me.
Section 1: Markets and Competition

1. Introduction – Economic Decision-making and Markets in the Arts.
   August 25, 27
   Readings:
   Towse, Chapters 2 and 3.
   Optional

2. Case Study Part I: The Economics of the Guggenheim- An Introduction
   September 3
   Readings:

3. Demand: Consumption of Cultural Goods and Services
   September 3, 8, 10
   Readings:
   Towse, Chapter 6
   Heilbrun and Gray, Chapter 5, “The Characteristics of Arts Demand and Their Policy Implications”.
   Optional:
   Seaman, “Chapter 14. Empirical Studies of the Demand for the Performing Arts”, in Ginsburgh (Section 1-4, 7, 12 only)

4. Case Study Part II: Marketing the Guggenheim
   September 10
   Reading:

   Homework 1 due Friday, September 12 at 5 PM.

5. Production and the Supply of Cultural Goods and Services
   September 15, 17, 22
   Readings:
   Towse, Chapter 5
   Frank and Bernanke Chapter 6
   Optional:
   Heilbrun and Gray, Chapter 6, “Production in the Performing Arts”.
Homework 2 due Friday, September 26.

EXAM 1, Wednesday, October 1

6. Market Equilibrium, Efficiency, Welfare and Entry and Exit
   September 24, 29, October 6
   Readings:
   Towse, Chapter 7
   Frank and Bernanke, Chapter 7
   Heilbrun, “Chapter 10: Baumol’s Cost Disease” in (Towse)
   Optional

7. Case Study II: Gran Teatre del Liceu
   October 6
   Readings:
   Munoz-Seca and Riverola, When Business Meets Culture, Chapter 6, “Gran Teatre del Liceu: Rising from the Ashes” and Chapter 7, “The Financial Function in Cultural Institutions”.

   Section 2: Market Structure and Market Imperfections

   October 8, 13, 20
   Readings:
   Frank and Bernanke, Chapter 8
   Rushton, “Chapter 49. Pricing” in Towse

Homework 3 due Monday, October 20 at the beginning of class.

OCTOBER 15 – NO CLASS, NETWORK NYC

9. Case Study III: la Caixa
   October 20
   Readings:
   Munoz-Seca and Riverola, When Business Meets Culture, Chapter 13, “The ‘la Caixa’ Foundation: Art Exhibitions” and Chapter 14, “A Service Perspective of Cultural Entities and Their Customers”.

10. Economics of Non-Profit Organizations
    October 22
    Brooks, “Chapter 15: Nonprofit Firms in the Performing Arts” (Ginsburgh)
    Hanson, “Economic Theories of Nonprofit Organizations”.
    Seaman, “Competition and the Non-Profit Arts: The Lost Industrial Organization Agenda”
11. Case Study IV: Economics, Strategy and Competition at the Prado  
October 27  
Readings:  
Munoz-Seca and Riverola, When Business Meets Culture, Chapter 4, “Museo Nacional del Prado” and Chapter 5, “Designing a Strategy”.  

Homework 4 due Friday, October 31.  

EXAM 2. Monday, NOVEMBER 3  

12. Externalities  
October 29, November 5  
Reading:  
Frank and Bernanke, Chapter 10  

13. Information  
November 10, 12  
Reading:  
Frank and Bernanke, Chapter 11  
Trimarchi, “Chapter 50. Principal-Agent Analysis”, in Towse.  
Caves, Chapter 11, pp. 178-188  

Section 3: Public Policy and the Arts  

14. The Rationale for Cultural Policy  
November 17  
Readings:  
Towse, Chapter 7  
Frey, Chapter 7, “How Can the Arts be Publicly Promoted?”  
Baumol, “Chapter 1. Application of Welfare Economics” in Towse  
Optional Readings:  
Caves, Chapter 16, “Cost Disease and its Analgesics”  

15. Economics of Copyright  
November 19  
Readings:  
Towse, Chapter 13  
Varian, “Copying and Copyright”  
Throsby, Economics of Cultural Policy, Chapter 13, “Intellectual Property”
Homework 5 due Friday, November 21.

16. Review/Catch Up
   November 24

Section 4: Economics of Cultural Industries

17. Music and Movies in the Internet Age – Guest Speaker Mike Smith
   December 1
   Reading:
   Towse, Chapter 16

18. Economics of Festivals – Guest Speaker Zale Schoenbron
   December 3
   Reading:
   Frey, Chapter 5
   Caves, Chapter 14, “Covering High Fixed Costs”.

FINAL EXAM – TBD