

**ECO - 3933**  
**Economics of Electronic Markets**  
**Spring 2006**  
**V3.0**

**Professor:** Tim Salmon  
**Office:** BEL 263, 644-7207  
**Email:** tsalmon@fsu.edu

**Meeting Times:** T TH 9:30-10:45 AM  
**Location:** BEL 203  
**Office Hours:** T TH 11-12:00 PM

**Course Description:**

Electronic markets are a rapidly growing section of our economy and are sometimes described as representing a “New Frontier” of business practices. This leads to a number of questions regarding how to design exchange mechanisms in this environment and the degree to which this “new” economy is different from the “old” economy. This course will investigate those questions in great depth. The objective for the course is that by the end students should be able to analyze and understand complicated electronic exchange mechanisms and the student should also be well versed in the differences and similarities between old and new economy. Such knowledge will be quite beneficial to those interested in being involved in electronic commerce ventures or just being well informed consumers in an electronic marketplace.

**Prerequisites:**

While there are no official pre-requisites for the course, we will be making extensive use of ideas and concepts from Intermediate Microeconomics and Game Theory. Some of this material will be re-taught in this course (in particular, the necessary Game Theory tools), but students who have taken at least one of these other courses will get more out of this one.

**Course Texts:**

Required text

1. Hall, Robert E. (2001). *Deal Engines: The Science of Auctions, Stock Markets and E-Markets*. W. W. Norton & Company, New York, NY. ISBN – 0-393-32467-2.

Recommended Text

2. Deak, Edward J. (2004). *The Economics of e-Commerce and the Internet*. Thomson South-Western. ISBN 0-324-27340-1.

**Grading:**

This course will be taught as more of a seminar than a formal lecture. Consequently, 30% of your course grade will come from classroom participation in discussions. 40% will come from a group project and the remaining 30% will be derived from a midterm exam (tentative date 3/16). There will be no final exam.

For every paper covered in lecture, students will be required to turn in 3 questions or comments regarding that paper on the day it is discussed. Late sets of questions will not be accepted. These should be 3 substantive questions about the content of the paper or comments regarding what you believe was lacking in its analysis. These will enter into your class participation grade. We will likely cover around 15 papers. Grades will be determined based on the number of satisfactory sets of questions/comments you turn in according to the following scale where the number indicates the minimum number necessary for achieving the indicated grade:

<b>A</b>	<b>A-</b>	<b>B+</b>	<b>B</b>	<b>B-</b>	<b>C</b>
13	12	10	9	8	6

### **Group Project:**

The group project for this class will consist of a research project into some aspect of electronic markets that will be the subject of a formal paper and will be presented to the rest of the class near the end of the semester. Subjects for the project could include documenting and examining a particular form of auction site or comparing the business plans of competing firms in a particular market (i.e. search engines for example). The idea is to have each group document and analyze some form of behavior observed in electronic markets. Each team will consist of 3 members and team compositions as well as topics will have to be approved by me. Teams should be formed within the first month of the semester and each team should plan to have a project idea submitted to me by **February 16<sup>th</sup>**. The project proposal will represent 10% of the grade. In the final weeks of the class each group will turn in a written report to me and present an overview to the rest of the class. 50% of the grade will come from the paper and 40% will come from the presentation. The presentation grades will be partially determined by the members of the class as each class member will grade each presentation (class participations grades will be determined in part from propensity with which you attend these presentations and complete the grade forms). Furthermore, each team member will submit an evaluation of his or her fellow team members' contribution to the project which will also factor into individual grades.

Due to the size of the class for Spring 2006, I have to place a cap on the maximum number of groups at 15. Since there are 45 students in the class, this means there must be 3 people per group. Class presentations will start on Thursday April 6. This gives us 5 classes for 15 groups so each group will get 1/3 of a class period to present. Time limits will be enforced to keep us on schedule. After proposals are turned in we will have a drawing for order of presentation.

### **Course Outline and Readings:**

You will be expected to have read the material for each class prior to the class period in which we will discuss it. The classes will for the most part be more of class discussions rather than lectures and the only way you will be able to participate in that discussion is if

you have read the material carefully. Many of the papers for the course are technical in nature and there will be details you will not understand. My expectation is not that you have mastered the material prior to class but that you come with a familiarity with the ideas in the material and questions about the parts you do not yet understand.

This list of readings is tentative and may change over the course of the semester.

### I. Introduction

- Electronic Markets – Hall Chapter 1, Deak Chapter 1
- Classic Models of the Firm – Deak Chapter 2
- Auction Theory and Game Theory – Hall Chapter 2, Additional Notes.  
<http://garnet.acns.fsu.edu/~tsalmon/auctions.pdf> 1/31-2/2

### II. Consumer to Consumer Auctions

- Lucking-Reiley, David (2000). Auctions on the Internet: What's Being Auctioned, and How?, *Journal of Industrial Economics*, vol. 48, no. 3, pp. 227-252. <http://eller.arizona.edu/~reiley/papers/InternetAuctions.pdf> 2/7
- Cox, James C., Bruce Roberson and Vernon L Smith, (1982). Theory and Behavior of Single Object Auctions, *Research in Experimental Economics*, Volume 2, pages 1-43. <http://expecon.gsu.edu/jccox/research/single.pdf> 2/7
- Houser, Dan and John Wooders (2004). Reputation in Auctions: Theory, and Evidence from eBay, University of Arizona Working Paper. <http://bpa.arizona.edu/~jwooders/revision.pdf> 2/9
- Ivanova-Stenzel, Radosveta and Sabine Kröger (2004). Behavior in a Combined Institution: Auctions with a Pre-Negotiation Stage. Working Paper University of Arizona. 2/14  
[http://econ.arizona.edu/downloads/working\\_papers/Econ-WP-05-03.pdf](http://econ.arizona.edu/downloads/working_papers/Econ-WP-05-03.pdf)
- Roth, Alvin E. and Axel Ockenfels (2002). Last-Minute Bidding and the Rules for Ending Second-Price Auctions: Evidence from eBay and Amazon Auctions on the Internet. *American Economic Review*, 92, 4, 1093-1103. 2/16  
<http://links.jstor.org/sici?sici=0002-8282%28200209%2992%3A4%3C1093%3ALBATRF%3E2.0.CO%3B2-U>
- Ivanona-Stenzel, Radosveta and Timothy C. Salmon (2006). Revenue Equivalence Revisited, Working Paper. <http://garnet.acns.fsu.edu/~tsalmon/iss4.pdf> 2/21

### III. Business to Business Auctions

- Hall Chapter 4
- Lucking-Reiley, David and Daniel F. Spulber (2001). Business-to-Business Electronic Commerce. *Journal of Economic Perspectives*, 15-1: 55-68. <http://uaeller.eller.arizona.edu/~reiley/papers/B2B.pdf> 2/23

- Katok, Elena and Richard Engelbrecht-Wiggans (2004). e-Sourcing in Procurement: Theory and Behavior in Reverse Auctions with Non-Competitive Contracts, Working Paper Penn State.  
[http://lema.smeal.psu.edu/katok/nsales\\_post.pdf](http://lema.smeal.psu.edu/katok/nsales_post.pdf) 2/28
- Salmon, Timothy C. and Bart Wilson (2004). Second Chance Offers vs. Sequential Auctions: Theory and Behavior, Working Paper Florida State University. <http://garnet.acns.fsu.edu/~tsalmon/SWaubarg.pdf> 3/2

#### IV. Posted Price Sellers

- Hall Chapter 6
- Deak Chapter 10, 11
- Deck, Cary A. and Bart Wilson (2003). Automated Pricing Rules in Electronic Posted Offer Markets, *Economic Inquiry*, 41(2).  
<http://ei.oxfordjournals.org/cgi/reprint/41/2/208> 3/14

#### V. Pricing Issues in Electronic Markets

- Baye, Michael, John Morgan (2004). Price Dispersion in the Small and Large: Evidence from an Internet Price Comparison Site. *Journal of Industrial Economics*, Forthcoming. 3/21  
<http://www.nash-equilibrium.com/baye/Small&Large.pdf>
- Brown, Jeffrey and Austan Goolsbee (2002). Does the Internet Make Markets More Competitive? Evidence from the Life Insurance Industry, *Journal of Political Economy*, 110-3: 481-507. 3/23  
<http://gsbwww.uchicago.edu/fac/austan.goolsbee/research/insure.pdf>
- Zettelmeyer, F., F. Scott Morton, and J. Silvia-Risso, (2001). Cowboys or Cowards: Why are Internet Prices Lower?, Haas School of Business, University of California at Berkeley, Marketing Working Paper No. 10-01.  
<http://flomac.haas.berkeley.edu/~florian/Papers/selection.pdf> 3/28
- Brynjolfsson, Erik, Astrid A. Dick, Michael D. Smith (2004). Search and Product Differentiation at an Internet Shopbot, Working Paper.  
<http://ssrn.com/abstract=450220> 3/30

#### VI. Regulation and Taxation Issues in Electronic Markets

- Hall Chapter 7
- Deak Chapter 17
- Goolsbee, Austan (2000). In a World Without Borders: The Impact of Taxes on Internet Commerce, *Quarterly Journal of Economics*, 115-2: 561-576.  
<http://gsbwww.uchicago.edu/fac/austan.goolsbee/research/intertax.pdf> 4/4

#### VII. Intellectual Property Rights, Patents and Copyrights

- Hall Chapter 8

- Deak Chapter 18
- Boldrin, Michele and David K. Levine (2004). Against Intellectual Monopoly. <http://www.dklevine.com/general/intellectual/against.htm>

HONOR CODE: Academic dishonesty as it relates to tests in this course will not be tolerated in any form. The Academic Honor system of the Florida State University is based on the premise that each student has the responsibility to:

1. Uphold the highest standards of academic integrity in the student's own work;
2. Refuse to tolerate violations of academic integrity;
3. Foster a high sense of integrity and social responsibility.

Put simply, cheating will not be tolerated. If an instance of academic dishonesty takes place, all students involved will receive a zero for that exam and the grade may not be dropped.

AMERICAN DISABILITIES ACT STATEMENT: Students with disabilities needing academic accommodations should:

1. Register with and provide documentation to the Student Disability Resource Center (SDRC);
2. Bring a letter to the instructor from SDRC indicating that you need academic accommodations. This should be done within the first week of class.