



# **MEDIA ECONOMICS**

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# Content

- I. Media economics
- II. Broadcasting
  - Television
- III. Publishing



# **MEDIA ECONOMICS**

# Mass media

- What is mass media?
- What mass media goods and services you know?
  - Group discussion

# Mass media

- Broadcast (radio, television)
- Print media (newspapers, magazines, books, etc.)
- Recorded music
- Cinema, films
- Digital media (Internet)
- Outdoor media (billboards)

# Mass media

- Diversified media technologies that are intended to reach a large audience by mass communication

([http://www.sciencedaily.com/articles/m/mass\\_media.htm](http://www.sciencedaily.com/articles/m/mass_media.htm))

# Media Economics

- What is media economics?
  - Group discussion

# Media Economics

- **Explores** the specific application of economics laws and theories to media industries and firms,
- **Shows:**
- how economic, regulatory and financial pressures direct and constrain activities of media industries and firms,
- and their influences on the dynamics of media markets.



# Media Economics

- The ways, how media behave and operate,
- How economic and financial pressures affect:
  - The kinds of media available in society,
  - Content of the media,
  - Culture, politics and society as a whole.

# Traditions in media economics

- Theoretical tradition
- Applied tradition
- Critical tradition

# Theoretical tradition

- Basis – neoclassical economy
- Tries to explain:
  - Choices and decisions and other economics factors affecting producers and consumers of communications goods and services,
  - Forces that constrain and compel actions in media markets
- Result:
  - Support forecasts, explore optimal choices for firms and optimal policy options

# Applied tradition

- Basis – business economics and management
- Explores:
  - The structure of communication industries and markets, with an emphasis on understanding trends and changes
  - Consumer and advertising behavior
- Result:
  - Help to develop strategies for government and firms

# Critical tradition

- Basis – political economics and social sciences
- Concerned with:
  - Issues of welfare economics
  - Cultural and social orientation in media
  - Issues in media markets (monopoly, cultural effects, etc.)

# Media

- Media – economic entities which work within economic context to produce and sell media content to consumers
  - Operate with a variety of business models and value-creation processes and in a wide variety of settings
  - Sold vs. Free
  - Financed via advertising (none, some or all income), state and private subsidy

# Media economy

- Recent changes
  - Changing markets (beyond national borders)
  - New technologies
  - Intensification of competition
- **Thus:**
- The need to understand media economics is growing rapidly.



# **BROADCASTING**



# Broadcasting

- A diverse range of radio and television services for entertainment, educational and informational purposes.
- Includes:
  - programme production,
  - programme selection for networks and local stations,
  - programme delivery,
  - funding of this whole process.

# Broadcasting

- A key sector in modern society, not only economically but, more than most industries, culturally, socially and politically.
- Is subjected to government regulation more than other cultural sectors

# Broadcast financing

- Advertiser payments
  - Programmes sold for free to audience.
  - Audience is sold to advertisers.
  - Payment depends on the extent costs are passed on in product prices
- Audience payment
  - Direct payment, determined by willingness to pay

# Broadcast financing (cont.)

- **Government or community subsidy**
  - Donations from community members
  - Government subsidies based on taxation

# Broadcast regulation

- Should broadcast be regulated?
- Arguments for and against.
  - Group discussion

# Broadcast regulation

- Broadcast market with:
  - Limited supply (frequency spectrum),
  - Unpriced product,
  - Demand derived from advertisements,
  - Economics of scale and scope,
  - Output that is persuasive and penetrating.

# Broadcast regulation. Market failures

- Programme diversity / Tendency to homogeneity
  - Competition, funding from advertiser -> reduce programme diversity and neglect minority tastes, duplicating popular programmes
- Monopolistic market
- Asymmetric information (advertising)

# Broadcast regulation. Market failures

- Social and political effects
- Externality
- Merit good
  
- E.g. programme with explicit violence
  - Induces (influence) actual violence from some viewers (externality)
  - Immoral even if not affecting people's behavior (merit good)



# Broadcast regulation. Policy

- **Objectives:**

- Reduce signal interference,
- Increase programme diversity,
- Prevent private monopolies,
- Enhance desirable social and political context.

# Broadcast regulation. Policy

- **Instruments:**
- Control of access and introduction of new technology in broadcasting,
- Fiscal subsidy,
- Regulation of ownership,
- Regulation of programme content.

# Broadcast regulation. Policy

- Licensing (to reduce signal interference)
  - Issue licenses to broadcasters via qualitative competition, financial tender or lottery
- Public broadcasting (diversity of programmes, social and political concerns)
  - ‘Principal-agent problem’ people are unable to transmit preferences easily to public broadcaster
  - Political interference



# **BROADCASTING. TELEVISION**

# Television

- has become a commercial mass medium by the 1950s, competing for audiences with radio and other media.

# Television. Specific features

- **Non-exhaustibility**
  - Programme content can be used repeatedly without additional cost
  - With few incremental costs content can be translated into other languages and reach wider audience
  - Low cost of distribution
- **Non-excludability**
  - Free-rider problem

## Television. Specific features (cont.)

- Non-exhaustibility & Non-excludability result in protection of intellectual property becoming relevant issue
- Solution: content protected by copyright

# Television. Specific features (cont.)

- Word of mouth promoting programmes
  - Used as marketing tool (stimulating favourable reports)
- Programme consumption is a personal and social phenomenon
  - Discussion of content is a part of viewer's satisfaction



# Television. Funding

- Advertisers
- Tax payers (government subsidies)
- Viewers (fees)

# Television

- **Government regulation:**
  - Licensing
  - Public broadcasting
- **Problem political influence:**
  - License for set period, apply for license renewal
  - Influencing public broadcasters through funding



# PUBLISHING

# Publishing

- **Basic functions of publishing company:**
  - Acquisition of manuscripts,
  - Editing and layout,
  - Printing (may be outsourced),
  - Sales.

# Manuscripts

- Solicited – offer from publishing company, non-fiction.
- Unsolicited – publishing company receives and reviews manuscripts (on an exclusive basis).
  - Review = artistic content + possibilities of commercial success
  - Type I and type II errors
  - Constant stock of unpublished manuscripts
  - Rejection = costs for publishing company

# Manuscripts

- Bargaining btw author and publishing company:
  - Costs and risks
  - Revenue
- Young authors – may pay for publishing
- Well-known authors – may get advance and royalty on each copy sold
- Library system – decrease revenue

# Publishing market

- Monopoly on book (copyright) + direct competition with other books = Monopolistic competition
- Book – new commodity

# Publishing market

- Monopoly:  $MC=MR$
- Publishing: decision publish/not publish
  - Fixed cost are crucial (though falling) -> high risk
  - Many direct competitors
  - Strength of demand is more important than elasticity
- Result:
  - Many books published at a loss
  - Sometimes publish at loss to promote themselves as guardians of literature (cross-subsidy minority literature)



# Publishing market. Books features

- Experience good – don't know the quality before you read a book
- Horizontal quality – not better/worse than other book, but like it more/less than other book
- Enormous supply -> information problem:
  - Reviews – high impact, used as marketing tool
  - Dependent preferences due to interaction btw readers (a 'must' to read a book)

# Sources

- *A handbook of cultural economics*. Edited by Ruth Towse. Cheltenham: Edward Elgar, 2003.
- Mass media. *Science daily*  
[http://www.sciencedaily.com/articles/m/mass\\_media.htm](http://www.sciencedaily.com/articles/m/mass_media.htm)



**THANK YOU FOR  
ATTENTION!**