MEDIA ECONOMICS

KEY CONCEPTS

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Economics of scale

- **Economics of scale** exist when the cost of providing an extra unit of a good falls as the scale of an output expands. Economics of scale exist when marginal costs are lower than average cost.
  - **Marginal costs**: For media firms, marginal costs refer to the cost of supplying a product or service to one extra consumer.
  - **Average costs**: these are total costs involved in providing the product or service.

Economics of Scope

- **Economics of scope**: these exist if the total cost of producing two or more products within the same firm is less than producing them separately in two or more nonrelated firms.
- Economics of scope arise when they are shared overheads or other efficiency gains available that make it more cost-effective for 2 or 3 more related products to be produced and sold jointly.

Perfect Competition / Imperfect Competition

- **Perfect competition** exists when there are many sellers of a good or service that is homogenous (the same) and no firms dominate the market. In such a situation economic forces operate freely and there are no barriers to entry.
- **Imperfect competition** describes a market characterized by a large number of buyers and sellers, dealing with different products and in which there are no barriers to entry.

Monopolistic Competition

- **Monopolistic competition** exists when there are a number of sellers of similar goods, but the products are differentiated and each product is available only from the firm that produced it. Firms command brand loyalty and thus have some control over their prices.
- In monopolistic competition, the market structure is similar to perfect competition with free entry and exit and many small firms, but in monopolistic competition, the firms produce differentiated products.

Monopoly

- **Monopoly** involves one seller, no competition whatsoever and usually high entry barriers.

Oligopoly

- **Oligopoly** describes a situation when there are only a few sellers in a market but some competition exists for the products, either homogenous (the same) or differentiated.
- Oligopoly is the most common type of market structure that media firms operate in. There are barriers to entry.

Vertical Integration

- **Vertical integration** takes place between firms at different levels in the chain of production. (for example between manufacturers and retailers or between film production company and a distribution company).

Horizontal Integration

- **Horizontal integration** occurs when two firms at the same stage in the supply chain or who are engaged in the same activity combine forces (for example when two newspapers merge or three internet companies merge).

Diagonal expansion

- **Diagonal expansion** occurs when two firms in different activities merge (for example integration between a newspaper and a TV company or between a telecommunication company and an internet company.

Market Failure

- **Market failure** describes a situation in which markets do not efficiently allocate goods and services.
- Market failure also describes a situation where market forces do not serve the perceived public interests.

Market Failure

- Broadcasting for example is beset by a number of market failures, many of which stem from the public-goods characteristics of broadcast output.
- Public goods have the characteristics of non-rivalry and non-excludability.
- Non-rivalry means that one´s person´s benefit does not reduce the benefit available to others.
- Non-excludability means there is no effective way of excluding individuals from the benefit of the good, once it comes into existence.

Market Failure

- Public goods also have the characteristic of being **non-exhaustible**. This refers to the fact that there are zero marginal costs involved in supplying the service to one additional viewer.
- Another cause of failure in broadcasting markets relate to the problem of **asymmetric information**.What consumers are offered by broadcasters is the opportunity for new knowledge or a new entertainment experience. But viewers cannot know this advance whether they will value this experience and it is only by "consuming" what is on offer that viewers will get a sense of its worth, but once they have watched a TV show, there is no longer an incentive to pay for it.

Market Failure

- Examples of Public goods:
  – National defense
  – Street lightning
  – Environmental regulation

References

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