

Notes on Spence Reading

- When there are fixed costs and differentiated products, market may produce too many or too few products
- Too few if imperfect appropriability of surplus
 - Should produce if benefit $>$ cost
 - Do produce if revenue $>$ cost
 - Revenue falls short of benefit if
 - Cannot perfectly price discriminate
- Especially acute for goods desired intensely by few
 - Then inefficient underprovision
- Too many if private benefit of entry $>$ social benefit
 - Suppose new product (imperfect) substitute for existing product
 - Entry has fixed costs
 - Private benefit (to entrant) consists partly of business diverted from existing firms
- Then inefficient overprovision
- These markets don't get it "right"
 - What you do matters

Course Wrap & Links around School

- Demand (purchase behavior)
 - **Marketing**
 - Economic and psychological approaches to analyzing purchasing decisions
- Supply
 - **OPIM** (supply chains, etc)
- Strategy (e.g. Should I enter?; How should I price?)
 - Figure out a problem, decide what to do; implement it
 - **Management**
 - (& **BPUB** to the extent, “economics”)

- **Market Failure** (Some things that should get done do not)
 - Sometimes corrected by regulation, gov’t, sometimes by strategy
 - **Business and Public Policy**
 - Information (and markets)
 - **Accounting** (esp financial accounting, disclosure)
- Topics
 - a) Markets for
 - .. securities **Finance**
 - ...real estate **Real Estate**
 -medical care **Health Care Systems**
 - b) mechanism for dealing with risk (cf. expected utility)
 - **Risk and Insurance**
- Even **Legal Studies** - Market infrastructure
 - Property rights
 - Enforceability of contracts