

AADM Y535 – Arts Administration and the Cultural Sector

Fall 2014

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Course Description

This course might well be titled “Some Useful Economics for Arts Administrators.” We will try to understand the logic behind the things we observe in the art world: Why are firms and their relationships with individuals and other firms organized the way they are? What causes these relationships to change? And we will use economic tools to find some useful techniques in decision-making within an organization, in areas such as employment, and price-setting.

The emphasis is on *useful* economics: the key “learning outcomes” for this course are to understand the economy in which you will be working, and the skills that lead to making smarter decisions. I presume no background on the student's part in economics or business, but we will cover a lot of ground. Even if you *do* possess some background knowledge, hopefully you will find many of the applications in this course novel and practical.

Readings

There are two books to acquire for this course, both available in paperback. We will read each of them in their entirety:

Richard Caves, [*Creative Industries*](#) (Harvard University Press, 2000).

Michael Rushton, [*Strategic Pricing in the Arts*](#) (Routledge, 2014).

Additional readings are given below; some links are provided, except for cases where the reading is a journal article for which IU has an online subscription. If you have trouble accessing any readings, send me an email and we will sort it out.

I blog and tweet about the subjects we cover in this class; feel free to follow at artsjournal.com/worth and [@RushtonIU](https://twitter.com/RushtonIU).

Any time at all you would like to meet to discuss the course, your program of study, career aspirations, or anything else, please send an email or see me after class and I will be most happy to arrange a convenient time to meet.

Some of the additional articles are from the popular press (especially where there is rapid change in the sector), and some from scholarly articles. The more technical articles I denote with the letter π – you are not responsible for knowing any mathematical analysis that gets tricky, we will search out the key ideas in rigorous, but low-tech, ways.

Schedule

This is the plan, although amendments are possible due to unforeseen events, interesting topics that become especially newsworthy, new publications, etc. Note I am likely to add to the list short timely articles on subjects as they appear in the press, to illustrate the concepts we are studying. The course is more interesting as we allow ourselves some flexibility.

Week 1: An introduction to basic economic concepts; some key differences between creative goods and more ‘mundane’ products.

Caves, Introduction.

Rushton, Chapters 1 and 2.

Week 2: Contracts for ‘simple’ creative goods (visual art, books, music recordings), the role of gatekeepers; why the distribution of artists’ earnings is so skewed.

Caves, Chapters 1 – 4.

π Sherwin Rosen ‘The economics of superstars’ *American Economic Review* 71(5) (1981): 845-58.

<http://www.artsjournal.com/worth/2014/08/the-superstar-economy/>

Weeks 3 and 4: On complex creative goods (esp. movies); distribution and vertical integration; on the prevalence of option contracts in the arts.

Caves, Chapters 5 – 10.

On movies:

Edward Jay Epstein, *The Big Picture* (Random House, 2005), prologue.

[\[http://www.edwardjayepstein.com/prologue.htm\]](http://www.edwardjayepstein.com/prologue.htm).

π (the first half not so π) Arthur DeVany ‘The Movies’ in Victor A. Ginsburgh and David Throsby (eds.) *Handbook of the Economics of Arts and Culture* (North-Holland, 2006): 615-665. [OnCourse]

‘Split screens’ *The Economist* (February 23, 2013).

Recent developments in publishing:

‘Amazon signs up authors, writing publishers out of the deal’ *New York Times* (October 16, 2011).

‘Little sign of a predicted e-book price war’ *New York Times* (December 23, 2012).

George Packer ‘Cheap words: Amazon is good for customers. But is it good for books?’ *The New Yorker* (February 17, 2014).

<http://www.artsjournal.com/worth/2014/02/is-amazon-good-for-readers/>

<http://www.artsjournal.com/worth/2014/06/fixed-book-prices/>

<http://www.artsjournal.com/worth/2014/07/summer-books-brad-stones-the-everything-store/>

<http://www.artsjournal.com/worth/2014/08/amazon-and-orwell-and-penguins/>

Recent developments in recorded music:

‘As music streaming grows, royalties slow to a trickle’ *New York Times* (January 28, 2013).

‘Music industry sales rise, and digital revenue gets the credit’ *New York Times* (February 27, 2013).

‘Beliebing in streaming’ *The Economist* (March 22, 2014).

Weeks 5, 6 and 7: Arts consumers; the development of tastes; information cascades; the influence of internet and social networks; ‘rational addiction’; surveys of arts consumers; contingent valuation methods.

Caves, Chapters 11 – 13.

Richard A. Peterson, “Changing arts audiences: Capitalizing on omnivorousness”
Cultural Policy Center, University of Chicago, Workshop Paper [On Oncourse].

On the formation of tastes:

Tibor Scitovsky 1972 ‘What’s Wrong with the Arts is What’s Wrong with Society’
American Economic Review 62(2) (May): 62-69.

π Gary S. Becker and Kevin M. Murphy ‘A theory of rational addiction’ *Journal of Political Economy* 96(4) (1988): 675-700.

On information cascades:

Sushil Bikhchandani, David Hirshleifer and Ivo Welch 'Learning from the behavior of others: conformity, fads and informational cascades' *Journal of Economic Perspectives* 12(3) (Summer 1998): 151-70.

Duncan J. Watts, 'Is Justin Timberlake a product of cumulative advantage?' *New York Times* April 15, 2007.
[<http://www.nytimes.com/2007/04/15/magazine/15wwlnidealab.t.html>].

Chris Anderson 'The long tail' *Wired* 12.10 (2004)
[<http://www.wired.com/wired/archive/12.10/tail.html>].

Whimsley, "Online monoculture and the end of the niche" (March 15, 2009)
[<http://whimsley.typepad.com/whimsley/2009/03/online-monoculture-and-the-end-of-the-niche.html>].

Kelefa Sanneh 'Blockbuster: Who needs hits?' *The New Yorker* (December 2, 2013).

On surveys and contingent valuation methods:

Paul Portney 'The contingent valuation debate: Why economists should care' *Journal of Economic Perspectives* 8(4) (Fall 1994): 3-17

W. Michael Hanemann 'Valuing the Environment through Contingent Valuation' *Journal of Economic Perspectives* 8(4) (Fall 1994): 19-43

Peter A. Diamond and Jerry A. Hausman 'Contingent Valuation; Is Some Number Better than No Number?' *Journal of Economic Perspectives* 8(4) (Fall 1994): 45-64.

Cass Sunstein 'Coherent and incoherent valuation: A problem with contingent valuation of cultural amenities'. University of Chicago, Cultural Policy Center, Working Paper (2002). [<http://culturalpolicy.uchicago.edu/workingpapers/Sunstein12.pdf>]

David Throsby 'Determining the value of cultural goods: How much (or how little) does contingent valuation tell us?' *Journal of Cultural Economics* 27(3/4) (2003): 275-285.

π Trine Bille Hansen 'The willingness-to-pay for the Royal Theatre in Copenhagen as a public good' *Journal of Cultural Economics* 21(1) (1997): 1-28.

π David Maddison and Terry Foster 'Valuing congestion costs in the British Museum' *Oxford Economic Papers* 55(1) (2003): 173-190.

Jerry Hausman 'Contingent valuation: From dubious to hopeless' *Journal of Economic Perspectives* 26(4) (Fall 2012): 43-56.

On voting for cultural spending:

Michael Rushton 'Support for earmarked public spending on culture: Evidence from a referendum in metropolitan Detroit' *Public Budgeting and Finance* 25(4) (Winter 2005): 72-85.

Weeks 8 and 9: Pricing in the arts.

Rushton, Chapters 3 – 9.

Price discrimination by quality:

π Philip Leslie 'Price discrimination in Broadway theater' *Rand Journal of Economics* 35(3) (2004): 520-41.

Pricing bundles:

Thomas W. Hazlett 'Shedding tiers for a la carte? An economic analysis of Cable TV pricing' George Mason University Law and Economics Research Paper Series 06-05 (2006).

On the prices of recorded music relative to the price of live concerts:

Alan B. Krueger 'The economics of real superstars: the market for rock concerts in the material world' Princeton University (2004)
[<http://www.irs.princeton.edu/pubs/pdfs/484.pdf>].

'A change of tune' *The Economist* (July 5, 2007)
[<http://www.economist.com/node/9443082>]

Robert Sandall 'Off the record' *Prospect* 2007:
[https://www.prospectmagazine.co.uk/magazine/offtherecord/#.Uz7_jqhdVQg]

On ticket resale:

Pascal Courty 'Some economics of ticket resale' *Journal of Economic Perspectives* 17(2) (Spring 2003): 85-97.

Week 10: A brief introduction to the economics of nonprofits in the arts.

Caves, Chapters 14 and 15.

Rushton, Chapter 10.

Henry B. Hansmann 'The role of nonprofit enterprise' *Yale Law Journal* 89(5) (April 1980): 835-901.

Weeks 11, 12 and 13: Some macroeconomics: labor markets and technological change; 'cost disease'; 'economic impact' studies.

Caves, Chapter 16.

On labor markets and technological change:

Claudia Goldin and Lawrence Katz, *The Race Between Education and Technology* (Harvard, 2008): Introduction [OnCourse].

'Has the ideas machine broken down?' *The Economist* (January 12, 2013).

On cost disease:

π William J. Baumol and William G. Bowen, 'On the performing arts: the anatomy of their economic problems' *American Economic Review, Papers and Proceedings* 55(1/2) (1965): 495-502.

William J. Baumol 'Children of Performing Arts, The Economic Dilemma: the climbing costs of health care and education' *Journal of Cultural Economics* 20(3) (1996): 183-206.

Tyler Cowen 'Why I do not believe in the cost-disease' *Journal of Cultural Economics* 20(3): 207-14.

On gender and earnings:

π Claudia Goldin, 'A grand gender convergence: its last chapter' *American Economic Review* 104(4) (April 2014): 1091-1119.

On 'economic impact':

Arthur H. Sterngold, 'Do economic impact studies misrepresent the benefits of arts and cultural organizations?' *Journal of Arts Management, Law, and Society* 34(3) (Fall 2004): 166-187.

Los Angeles County Economic Development Corporation, *The Transformation of LACMA: An Economic Impact Analysis* (January 2014):
<http://laedc.org/2014/01/23/lacma-transformation-economic-impact-report-laedc/>

<http://www.artsjournal.com/worth/2013/04/what-do-we-talk-about-when-we-talk-about-the-economic-impact-of-the-arts/>

<http://www.artsjournal.com/worth/2014/03/the-economic-impact-of-everything/>

<http://www.artsjournal.com/worth/2014/05/the-economic-impact-of-everything-continued/>

‘Economic impact’ and film production:

Susan Christopherson and Ned Rightor, ‘The creative economy as ‘big business’: Evaluating state strategies to lure filmmakers’ *Journal of Planning Education and Research* 29(3) (2010): 336-52.

John Lester, ‘Tax credits for foreign location shooting of films: No net benefit for Canada’ *Canadian Public Policy* 39(3) (September 2013): 451-72.

<http://www.artsjournal.com/worth/2014/02/today-in-film-tax-credits/>

<http://www.artsjournal.com/worth/2014/06/film-tax-credits-jobs-and-lost-incomes/>

Weeks 14 and 15: Durable creative goods; disputes over rents; economic aspects of intellectual property.

Caves, Chapters 17 – 22.

On rent seeking:

‘Operatic drama swells in labor talks at the Met’ *New York Times*, April 8, 2014.

<http://www.artsjournal.com/worth/2014/04/nonprofit-costs-are-driven-by-revenues/>

On auctions:

π Orley Ashenfelter and Kathryn Graddy ‘Auctions and the price of art’ *Journal of Economic Literature* 41(3) (2003): 763-87.

Orley Ashenfelter and Kathryn Graddy ‘Anatomy of the rise and fall of a price-fixing conspiracy: Auctions at Sotheby’s and Christie’s’ *Journal of Competition Law and Economics* 1(1) (2005): 3-20.

Sarah Thornton, *Seven Days in the Art World* (Norton, 2008): Chapter 1 [OnCourse].

Evaluation

There will be 12 short assignments during the semester: your best 10 will each count for 10% of the total grade. There is no final examination in this course.

SPEA Academic Policies - Academic Dishonesty

SPEA faculty do not tolerate cheating, plagiarism, or any other form of academic dishonesty. If you have not done so, you should read the IUB Code of Student Rights, Responsibilities, and Conduct, which can be accessed at <http://dsa.indiana.edu/Code/> so you will be sure to understand what these terms mean and what penalties can be issued for academic dishonesty. Academic dishonesty can result in a grade of F for the class (an F for academic dishonesty cannot be removed from the transcript). Significant violations of the Code can result in expulsion from the University.

Plagiarism is using another person's words, ideas, artistic creations, or other intellectual property without giving proper credit. According to the Code of Student Rights, Responsibilities, and Conduct, a student must give credit to the work of another person when he does any of the following:

- a. Quotes another person's actual words, either oral or written;
- b. Paraphrases another person's words, either oral or written;
- c. Uses another person's idea, opinion, or theory; or
- d. Borrows facts, statistics, or other illustrative material, unless the information is common knowledge.

AMERICANS WITH DISABILITIES ACT STATEMENT:

I will make accommodations for students registered with Adaptive Educational Services (AES) on the Indianapolis campus (Phone: 317-274-3241 or e-mail AES@iupui.edu) or the Disability Services for Students Office in Franklin Hall on the Bloomington campus (Phone: 812-855-7578).