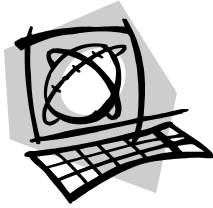


The Economics of Information Technology

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“New economy” versus old economics?

- The new economy
 - End of the business cycle?
 - Manufacturing versus services
 - Tangible versus intangible assets
 - Competition
- Is regular (Austrian) economics still useful?
 - Information goods
 - Network effects (e.g., Brian Arthur)

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Markets for information goods

- Versioning as price discrimination
- Customer loyalty
 - Frequent customer programs
 - Branding (e.g., Amazon.com)
- “Vaporware” and other aggressive practices
- A new phenomenon?

3

Network effects and the case against Microsoft

- Microsoft target of several antitrust investigations (1990–95, 1997–2001, more)
- Main case: Microsoft’s huge market share (80–90%) due not to superior products, but to network effects and restrictive licensing practices

4

Path dependence and inefficient lock-in

- Network effects and path dependence
- QWERTY, VHS, and MS-DOS
- Some problems
 - Imperfect knowledge
 - Switchover costs
 - Marginal analysis
 - The political process
 - Are there any real-world examples? (Liebowitz and Margolis)

5

The economics of the internet

- History of the internet
- TCP/IP and path dependence
- The internet and the invisible hand

6

The market and the internet

The current global computer network has been developed by scientists and researchers and users who were free of market forces. Because of the government oversight and subsidy of network development, these network pioneers were not under the time pressures or bottom-line restraints that dominate commercial ventures. Therefore, they could contribute the time and labor needed to make sure the problems were solved.

— “The Netbook,”
www.columbia.edu/~hauben/netbook/

7

The open-source movement

- Analogy with markets and central planning
- Firm size on the free market
- Is open-source always best?

8

Intellectual property

- The theory of intellectual property
 - Rothbard
 - Kinsella
- Applications to digital media

9

Summary and conclusions

- Today's economy does have different structural characteristics.
- Information goods and network effects are important (though not really new).
- The laws of economics still apply!

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