The Economics of Information Technology: An Introduction (Raffaele Mattioli Lectures)

Hal R. Varian, Joseph Farrell, Carl Shapiro
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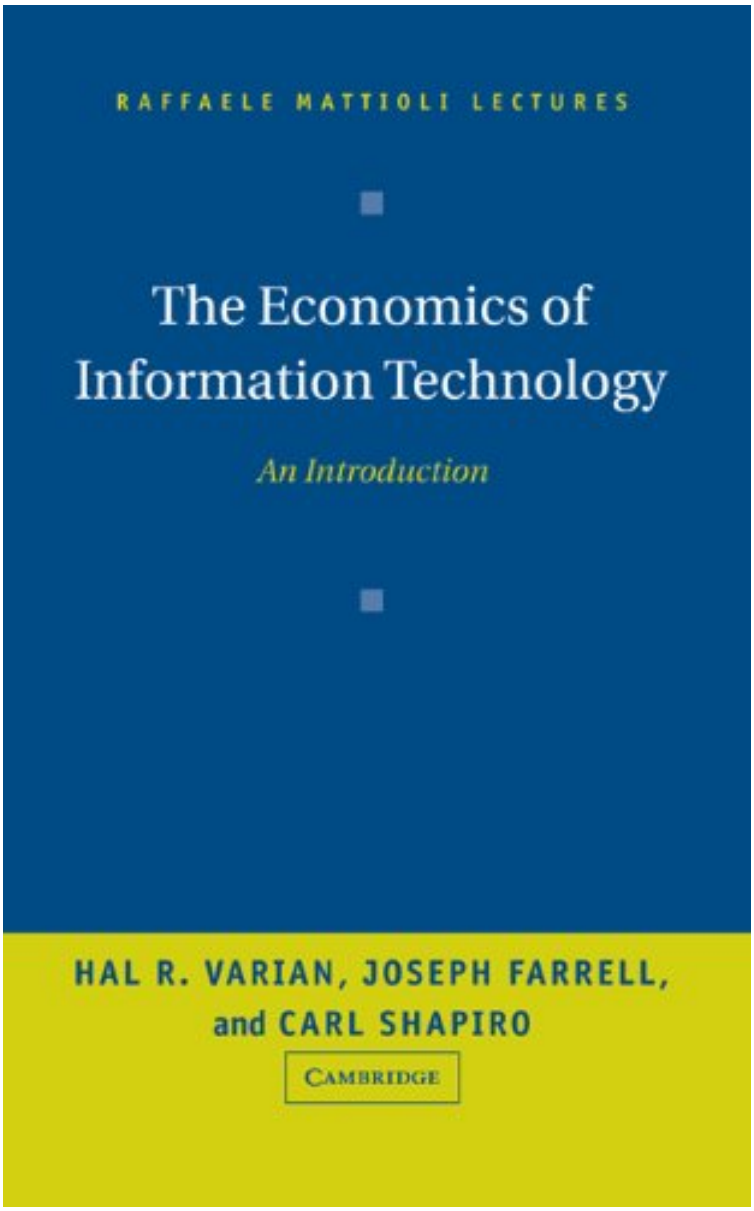

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Hal R. Varian, Joseph Farrell, Carl Shapiro : The Economics of Information Technology: An Introduction (Raffaele Mattioli Lectures) before purchasing it in order to gage whether or not it would be worth my time, and all praised The Economics of Information Technology: An Introduction (Raffaele Mattioli Lectures):

11 of 12 people found the following review helpful. A fair introductionBy Dr. Lee D. CarlsonThe rise of the Internet

and its resulting commercialization have caused many to wonder whether the economics of the information age is governed by a different set of rules than can be found in "classical" economic treatises. If information technology is indeed different in this regard, this would be of great interest to those businesses whose goal it is to generate profits by its use. This very short book, composed of only two articles, gives a fairly good introduction to the economic issues that arise in the use of information technology. The authors in the book certainly motivate the subject well, but the length of the articles, along with the relative paucity of references, entails that the reader will have to do a lot of outside research in order to obtain a more in-depth understanding of the issues.The author of the first article clearly believes that high-technology industries face the same market forces as any other industry, but that there are some that are of particular concern to them. Fixed costs for example are very high for information goods, but the marginal costs are very small. In addition, intellectual property is very important to the high-tech industry.The Internet "boom" has become the paradigmatic example of the economics of information technology due to the speed in which the Internet took hold in business all around the world and in the "wild" speculation that took place in dot.com companies in the late nineteen-nineties. The author claims that the large increase in the NASDAQ during this time is evidence of the efficacy of competition, but he does not offer detailed evidence for this claim. When discussing the reasons behind the Internet financial "bubble" he also annoys the reader somewhat by referring to the differences between "rational" investors and "real people". It would be difficult he believes to cause a financial bubble with the former class but relatively easy with the latter. There is however no evidence for this view, from either historical data or from simulation studies. This reviewer knows of no study that is able to distinguish between a `rational investor' and a `real person' in terms of their ability to cause a financial bubble. It would be difficult in and of itself to arrive at criteria that would distinguish the two classes. It would be even more difficult to collect historical data to indeed show their behavior is different in the financial markets.The author interprets the Internet boom as an example of what he calls "combinatorial innovation." This characterizes an historical period where a collection of technologies emerges whose components can be combined to form new products. Innovators cause a technology boom by working through all the possibilities in these components. This would seem to be a plausible explanation of the Internet boom, but it is one that would need to be examined with more care. The designation of a product as being innovative or an idea as being creative is difficult, as patent officials will attest to wholeheartedly. In addition, innovation must also be correlated with utility, in that products must be useful to the individuals or businesses that are using them. And arriving at a sound notion of creativity and innovation is also very important to those who want to automate these processes. If information technology can itself be trained (or "programmed") to create useful products, this would be very significant economically (possibly resulting in another technological "boom"), and would have major ramifications for employment and productivity.The second article of the book is concerned with the economics of intellectual property in information technology, with particular emphasis on the role that it plays in the competitive strategies of IT firms. Legal issues are discussed in various places in the article, giving some insight into their complexity. The authors discuss the current schism between the `incentives' school, which emphasizes the ability of innovators to claim financial awards for their creations, and the `openness' school, which emphasizes the role of open (and essentially free) development in the public domain. There have been few empirical studies done on resolving which one of these approaches is optimal in terms of the creation of wealth or the creation of social benefit.In discussing the issue of whether the patent system can provide any incentives for a private firm to make a commitment to innovation and research, the authors outline a simple mathematical (static) model to illustrate the tradeoffs that are involved. The results of this model indicate that the patent system will not offer sufficient incentives for investors. The authors point out however that this model is too simplistic to model the real issues involved in the economics of the patent system, and that a dynamic model would reveal that patent holders are able to obtain rewards that are much greater than the social contributions they make. They do not discuss this model at any length, nor give references to the "large literature" they claim exists on patent system economics. One would like to know for example what the dependence of the incentive is on the lifetime of the patent; whether a patent system can be optimized with respect to all industries, i.e. whether it can ensure optimal incentives regardless of the products offered; the degree to which patents have to be original or "creative" in order for incentives to be optimal; whether empirical studies have been done that indicate vulnerabilities to patent issuing; and whether a company can exist solely by innovation and the resulting licensing of patents.0 of 0 people found the following review helpful. Brief analysis but a decent primerBy AnonymousThis is a very brief analysis of the economics of information technology. But it's suitable for readers who are just dipping their toes in the material. The writing was very accessible with clear prose and interesting examples. I recommend for readers who want a quick survey of the economics of the tech industry.0 of 0 people found the following review helpful. Five StarsBy CustomerGreat for class!

The Economics of Information Technology is a concise and accessible review of some of the important economic factors affecting information technology industries. These industries are characterized by high fixed costs and low marginal costs of production, large switching costs for users, and strong network effects. These factors combine to produce some unique behavior. The book consists of two parts. In the first part, Professor Varian outlines the basic

economics of these industries. In the second part, Professors Farrell and Shapiro describe the impact of these factors on competition policy. The clarity of the analysis and exposition makes this an ideal introduction for undergraduate and graduate students in economics, business strategy, law and related areas.

About the AuthorHal R. Varian is the Class of 1944 Professor at the School of Information Management and Systems, the Haas School of Business, and the Department of Economics at the University of California, Berkeley.Joseph Farrell is Professor of Economics in the Department of Economics at the University of California, Berkeley. He has served as Deputy Assistant Attorney General and Chief Economist at the Anti-Trust Division, US Department of Justice, 2000-1.Carl Shapiro is the Transamerica Professor of Business Strategy at the Haas School of Business at the University of California at Berkeley. He also is Director of the Institute of Business and Economic Research, and Professor of Economics in the Economics Department at the University of California, Berkeley.