

15.567 Reading Guide

Session 7: Pricing at Zero

The marginal cost of digital information is often very close to zero. Does this mean the natural price is also zero? Chris Anderson thinks so. Malcolm Gladwell and Barry Diller don't agree. What are some of the arguments for pricing at zero? Is this the future?

Required Readings:

Chris Anderson, "Free! Why \$0.00 Is the Future of Business" *Wired*, Feb 25, 2008.
http://www.wired.com/techbiz/it/magazine/16-03/ff_free

Parker and van Alstyne, 2002, "Two-Sided Network Effects: A Theory of Information Product Design", *Management Science*, Oct, 2005.

Malcolm Gladwell, "Priced to Sell: Is Free the Future?" *The New Yorker*, July 6, 2009.

Bloomberg News "Diller Calls Free Web Content a 'Myth, Joins Refrain", July 24, 2009.

Rich, Motoko, "With Kindle, the Best Sellers Don't Need to Sell" *New York Times*, January 22, 2010.

Optional:

Parker and Van Alstyne, "Strategies for Two-Sided Markets" *Harvard Business Review* (2006)

Shapiro and Varian, Ch 5 and 6

Brynjolfsson and Saunders, Ch. 2 and 7.

Chris Anderson, *Free: The Future of a Radical Price*. Hyperion, July 2009.

Study Questions

Please think about the following questions as you do the readings.

1. What are the main arguments that Chris Anderson makes for why \$0.00 is the "future of business"?
2. Do you find Malcolm Gladwell's rebuttal convincing? Why or why not?
3. Describe a formal taxonomy listing all the distinct revenue models that can make zero the optimal price. Can you identify real-world examples of each branch of your taxonomy?
4. What three questions would you ask Chris Anderson if he visited our class?

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