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Using box office revenues in the economics classroom

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ABSTRACT

This manuscript presents a semester-long classroom exercise in which students can participate in a marketplace where they buy and sell futures contracts dependent on the box office revenue of forthcoming motion pictures. Students have an opportunity to learn about the inner workings of this particularly interesting industry while also learning to gather data, use expectations, and manage a budget in a market setting.

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1. Introduction

Economics teachers at all levels are in a constant struggle to come up with mechanisms for our students to comprehend the incentives and inner workings of an economic marketplace. Often, textbook examples and anecdotes from the local newspaper are not sufficient to spark the curiosity of our students. In this exercise, students (or groups of students) will work within a marketplace to develop strategies for recognizing and predicting trends, learn the role of expectations and information on the future prices of goods, and interact as buyers and sellers with their classmates. The marketplace: the buying and selling of futures' contracts for major motion pictures.

According to the [website www.boxofficemojo.com](http://www.boxofficemojo.com), Americans will spend nearly \$9 billion collectively at the movie box office this year. Almost 40% of movie admissions are individuals between the ages of 16 and 29. (MPAA, 2005) Since this age group is only about 23% of the U.S. population, it should be clear that collectively, college-aged students are very over-represented in movie theaters. According to the MPAA, approximately 43% of Americans between the ages of 18 and 24 are considered "Frequent Moviegoers" – defined as those attending one movie per month on average. This

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is significantly higher than the 21% of all adults (18+) that are “Frequent Moviegoers.” And these statistics look virtually identical across genders. The point is this: college students, as a general rule, know what is going on in the world of cinema. They know what movies are currently in theaters and what is on the way. They know which movies are popular and which are not. This is an industry in which they, as a demographic group, are intimately involved. This is what makes using data from this industry extremely advantageous in the classroom. You have a built-in audience (pardon the pun) for the subject matter.

There is a growing literature on the determinants of demand for movies along with the factors that help determine box office success.¹ The research demonstrates that critical acclaim, star power, advertising budgets, rating (PG, R, etc.), genre, and timing are key determinants of box office success. Determinants of profit have proven to be more challenging for researchers than determinants of revenue. For example, [Ravid and Basuroy \(2004\)](#) find one positive determinant of box office revenue to be the violent content in a movie. However, they also conclude that while R-rated movies may in fact be less profitable. This conclusion is supported by a study by the [Dove Foundation \(2005\)](#). It is possible that movie production choice seems to be more consistent with revenue-maximizing behavior than it is with profit-maximizing behavior. In addition, the rapidly expanding foreign market for US-made movies has changed the way that a movie's success is determined. In their working paper “Does Sex Sell: A Look at the Effects of Sex and Violence on Motion Picture Revenues” (2011), [Lang and Switzer](#) show that R-rated movies perform well in foreign theaters, which now account for 80% more revenue than the domestic market.²

[DeYoung \(1993\)](#) says that “instruction in economics is largely a passive experience. Our students can surely benefit from any opportunity that replaces lectures with active participation.” Several other authors have attempted to engage their students in this “active participation” by introducing us to versions of their various experiments.³ Many of them are quite interesting and can be illuminating for the students who participate in them. Almost all of them involve trying to help students uncover some of the truths and secrets of the operation of an economic market. These classroom experiments, however, are not without their shortcomings. First, most of them are designed to take place over a very short period of time – usually within the confines of one lecture. Often that is sufficient. After all, it is easy to show the benefits of the traditional textbook version of a Supply and Demand model by trading widgets for 20min in the classroom. However, students know that many market interactions do not take place in one 20min segment. Or even two. Rather, we teach them that market behavior, while at times instinctual, is also something that can be learned over time. Fortunes are made and lost with the benefit of time and information – two things that it is difficult to reproduce in a short time frame.

The course in which the exercise discussed in the remainder of this paper was first attempted was entitled “Economics at the Movies” in 2004. This is a course that I developed in order to introduce students to economic topics by convincing them that economic concepts from the classroom are, in fact, all around us. In this course, students are lectured on a topic from more traditional economics courses (communist vs. capitalist goals and ideals, for example) and then watch a movie that illustrates the concept (*Antz* in this case). After each movie, students are required to complete a short essay tying the lecture notes and the movie together and then the process starts anew the following week.⁴ This has become an extremely popular course among both majors and nonmajors alike. It turns out that students really like talking about economics given the right circumstances. Further, it turns out that movies help create those circumstances very quickly. However, despite the fact that the exercise was created for a class which relies heavily on motion pictures, the aforementioned widespread popularity of movies amongst the college-aged makes this a good project for any course looking for a semester-long market experience. A key factor of using this exercise then becomes not whether students will find it interesting and become ensconced, but whether the instructor will as well. This exercise has been replicated four times since 2004 with similarly successful results and

¹ See [Moul \(2005\)](#) for recent research on the motion picture industry.

² For a deeper perspective on the mechanics of the motion picture industry, see [Vogel \(1998\)](#).

³ Some of my personal favorites include [Williams \(1993\)](#), [Bohacek \(2002\)](#), [Stanley \(2001\)](#), [Brock \(1991\)](#) and [Hazlett and Bakkensen \(2005\)](#).

⁴ For a different but more thoroughly articulated version of this type of classroom setting, see [Leet and Houser \(2003\)](#).

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