Digitization Tutorial Application – Adam Smith

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Course of study to date:

I am currently in my third year of the doctoral program in Economics at UW-Madison. My major field of study is Industrial Organization, in which I took a two-course sequence in second year: a methods course covering the estimation of production functions, discrete choice models (static and dynamic) and dynamic games; and a topics course covering subjects such as auctions, empirical models of bargaining and search and advertising. My minor field of study is econometrics, in which I also took a two course sequence in second year, covering nonlinear and nonparametric estimation. This was in addition to the first year core sequences in microeconomics, macroeconomics and econometrics, as well as two additional courses in second year, one in advanced microeconomic theory and the other in computing equilibria in heterogeneous agent models.

Research interests:

My main research interest at present is the functioning of cultural goods markets, such as the markets for books, movies and video games. These markets are characterized by potentially severe information problems: the sheer number of products available mean that consumers may not purchase the best products available simply because they are not aware of them. This situation has been magnified with the rise of the internet, since consumers have gone (for instance) from choosing between thousands of books in a bookstore to millions of books available online. Furthermore, these goods are to varying degree experience goods: even if consumers know about a product's existence, they may not know how much they will like it if they consume it. I am interested in ascertaining how large these information frictions actually are in these sorts of markets, as well as examining how effective current institutions are at dealing with them.

As a first step in studying information frictions for my second year field paper I considered the PC game digital distribution platform Steam. Users on Steam have profiles listing the games they own, the amount of time they have played them, and a list of friends (a useful analogy is to think of Steam as a combination of Facebook and the App store for PC games). This allowed me to collect a data set unusually rich in the level of post-purchase and social information on consumers, in that I can observe how much consumers use a product after purchasing it, as well as the purchasing decisions of a (potentially) relevant group of peers. This allowed me to start studying social learning. That is, if consumers are indeed poorly informed about games then we would expect them to use the experiences of their friends to inform their own choices. The main result of the paper was that (conditional on observable consumer and game characteristics) consumers are less likely to return a game for a refund if more of their friends have previously purchased that game, which is consistent with a model in which consumers learn about product quality from their peers. (Modelling refund decisions instead of purchase decisions helps overcome many of the difficulties encountered in the peer effects literature.)

I have not yet formed a committee, as I only completed the coursework stage of my degree a few months ago. I would very much appreciate the opportunity to get more exposure to this field which is also in its early stages.