

The image features a solid blue background. A white curved line starts from the top left and curves downwards towards the center. A white circular shape is positioned in the lower right quadrant, partially overlapping the blue background. The text "Is downloading music wrong?" is centered in the image in a white, sans-serif font.

Is downloading music wrong?

WHEN YOU PIRATE MP3S,  
YOU'RE DOWNLOADING  
**COMMUNISM**



A REMINDER

*from the*

**Recording Industry Association of America**

# Court case



VS



2001

What made Napster liable?

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- Napster had knowledge of direct infringement
- Napster had the ability to supervise the conduct of users
- Napster financially benefited from this.

# The ruling

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- Napster was liable for contributory copyright infringement and vicarious copyright infringement.

# A look at the figures

	1999	2000	2001	2002	2003	2004
cds	938.9	942.5	881.9	803.3	745.9	766.9
change	10.850059	0.38342742	-6.4297082	-8.9125751	-7.1455247	2.8153908
revenue	12816.3	13214.5	12909.4	12044.1	11232.9	11446.5
adjusted	12283.2087	12478.2814	11950.935	10931.2942	9995.46183	10078.806
change	12.2661177	1.58812458	-4.2261139	-8.5318911	-8.5610395	0.83382037
cd price	13.65	14.02	14.64	14.99	15.05	14.92
adjusted	13.0822312	13.2389046	13.5530457	13.60501	13.3920626	13.1372722
change	1.27496496	1.19760504	2.37286327	0.38341383	-1.5652127	-1.9025484
cd singles	55.9	34.2	17.3	4.5	8.3	3.2
change	-0.1788909	-38.81932	-49.415205	-73.988439	84.4444444	-61.445783
cd singles revenue	222.4	142.7	79.4	19.6	35.9	14.9
adjusted	213.14932	134.749764	73.5049065	17.7890724	31.945186	13.1196619
change	4.315	-36.781518	-45.450809	-75.798796	79.5775812	-58.930707
deflator	1.0434	1.059	1.0802	1.1018	1.1238	1.1357

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- Are these figures misleading?
  - Most of this data is taken during the time of a recession

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- Are these figures misleading?
  - Most of this data is taken during the time of a recession
- CD prices kept rising despite lower sales
  - Does this make sense from an economic point of view?



# Arguments made by the RIAA

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- "If just half of the blank discs sold in 2001 were used to copy music, that would mean that the number of burned music CDs worldwide is about the same as the number of CDs sold at retail."

Arguments for alternative  
reasons record sales went down

# Arguments for alternative reasons record sales went down

- The economy

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- Competition from other forms of entertainment

# Arguments for alternative reasons record sales went down

- The economy
- Competition from other forms of entertainment
- Shorter playlists on the radio and on MTV

# Third party research

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- **Jupiter Research – US August 2003**  
This was a survey of 1,326 US-based online music fans. One third of active file-sharers said that they had decreased spending on music since they started file-sharing. Only 16% said spending had increased. This suggests a net negative impact among this group, consistent with IFPI National Group findings.

# Third party research

- **Edison Media Research – May 2003**

The survey found that the heaviest downloaders have the most negative influence on sales. Among those who have downloaded more than 100 files, roughly 16% of respondents, CD purchases dropped 61% from last year. A year ago heavy downloaders purchased an average of 28.9 CDs a year versus the current average of 11.3 CDs.

# Third party research

- a survey by Forrester Research in August 2002 concluded that's not true. The company said that frequent digital music consumers weren't buying fewer CDs and that the 15% drop in music sales over two years owed more to the recession and competition from the booming markets of video games and DVDs. By 2007, Forrester predicted that digital music revenues would be worth US\$2 billion as long as record labels made it easy to buy songs from any record label without having to pay a flat subscription fee.

What do the economists say?

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- "Downloads have an effect on sales which is statistically indistinguishable from zero, despite rather precise estimates," write its authors, Felix Oberholzer-Gee of the Harvard Business School and Koleman S. Strumpf of the University of North Carolina at Chapel Hill.

# What do the economists say?

- The problem with the industry view, Professors Oberholzer-Gee and Strumpf say, is that it is not supported by solid evidence. Previous studies have failed because they tend to depend on surveys, and the authors contend that surveys of illegal activity are not trustworthy. "Those who agree to have their Internet behavior discussed or monitored are unlikely to be representative of all Internet users," the authors wrote.

# What do the economists say?

- they analyzed the direct data of music downloaders over a 17-week period in the fall of 2002, and compared that activity with actual music purchases during that time. Using complex mathematical formulas, they determined that spikes in downloading had almost no discernible effect on sales.

# What do the economists say?

- Even under their worst-case example, "it would take 5,000 downloads to reduce the sales of an album by one copy," they wrote. "After annualizing, this would imply a yearly sales loss of two million albums, which is virtually rounding error" given that 803 million records were sold in 2002.

# What do the economists say?

- "While downloads occur on a vast scale, most users are likely individuals who would not have bought the album even in the absence of file sharing," the professors wrote

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# Arguments for music downloading

- Not all CD copying is for illegally downloaded music
- Downloading is like “sampling” music
- What kinds of people buy the majority of cds?

**conclusion**

# conclusion

- Decide for yourself

# The future of mp3's

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- itunes
  - March 2004 – itunes announce it had sold 50 million downloads (roughly 4 million CD's)

# The future of mp3's

- Napster subscription program
  - Ended first fiscal year with 410,000 subscribers.
  - Some campuses are providing it. (Penn state, George Washington, USC, UNC, NCstate, Cornell, Vanderbilt, Miami, Wright state, Middlebury, Rochester, eastern Michigan, Tennessee)

# sources

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