

Are digital goods worth the effort?

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KeyWords:Public goods, Digital goods, Selling mechanism, voluntary participation

ABSTRACT

This paper considers a scenario where a monopolist (the provider) wants to sell a public good to a group of potential users who all have the possibility of free-mailriding. It is shown that even in case of voluntary participation and uncertainty it is possible for the provider to construct a mechanism that extracts all surplus along the lines of Cremer and McLean (1988). However, the practical value of this result seems rather limited as we demonstrate that if users may become free-mailriders by accident (or there are large opportunity costs associated with participation) then there no longer exists such a mechanism. Moreover, it is shown that the expected revenue for the provider decreases significantly and an upper bound is obtained for a specific scenario with respect to an increasing number of users.