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MARKET POWER: A TEXTBOOK EXAMPLE

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It would happen several times each semester. I would be in my office at a liberal arts college in the Northeast, preparing a lesson or working on a research paper, when a jovial representative from one of the textbook publishers would show up at my door "just to say hello." The representative appeared genuinely concerned that I was still using the textbook by Professors X and Y in my courses, when the new edition of Professor Y's textbook--which happened to be published by his company--had a far superior treatment of this or that topic. If I needed any evaluation copies and ancillary materials, he'd be happy to send those to me.

I thought of these visits when reading recent reports that California legislators have introduced bills to try to reign in textbook prices. The price of a typical introductory economics textbook is now over $100, and textbooks for advanced courses are even more expensive. Textbook prices have been increasing rapidly over the past few years, in an industry that is generally perceived to be very profitable.

Why are textbooks so expensive? Industry insiders often argue that textbooks are costly to produce--payments to authors, proofreaders, and other labor involved in creating the textbook quickly add up, not to speak of the cost of paper, ink, and other materials. However, come to think of it, these costs also go into the production of hardcovers and paperbacks, which retail at a fraction of the price of a textbook.

There is a crucial difference between books and textbooks. Say a friend recommends two books to you equally--The Kite Runner and Middlesex. You go to your local bookstore and find that one of the books is selling for $109 and the other for $17.99. Chances are you will buy the cheaper one. Your choice, together with the choices of millions of other consumers across the U.S., will send a powerful signal to the publisher of the overpriced novel that it needs to lower its price or risk losing significant sales.

The example above illustrates what economists call "competitive market forces," a central tenet of economic analysis. When numerous buyers have the choice to buy a product from numerous sellers, consumers will tend to buy from the cheaper sellers, and the more expensive sellers will either have to lower prices or be driven out of the market. The market will thus reach a competitive price.

Textbooks, though, are not similarly subject to these competitive market forces. Remember the jovial textbook representative at my office? He knew well that if he could convince me to adopt "his" textbook, the following semester scores of students would have to use it (hundreds if I had been teaching at a larger university). Currently, most introductory economics textbooks cover the same topics in similar ways, so arguably students would rather buy a cheaper textbook than a more expensive one. However, when I would say "tomorrow we'll discuss section 10.2 of

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the textbook" students who had a different textbook would have to scramble to find which section in their textbook to look for. (Or they would come ask the professor after class. I suspect that's why most syllabi state "required" instead of "suggested" textbook. Even decidedly pro-market professors tend to dislike spending their afternoons finding section equivalences between textbooks!)

Using economic terms, the dissociation of adoption choice (by the professor) and actual buying (by the students) of textbooks results in market power for textbook publishers. Alternative textbooks become very poor substitutes for the one the professor has chosen, so the students can no longer "vote with their wallets" in favor of cheaper textbooks. The demand for textbooks becomes inelastic (i.e., unresponsive to changes in price). Interestingly, I don't recall any of the representatives who used to visit me ever mentioning the retail price of their product. They would always focus on all the bells and whistles that the new edition of their textbook offered, but not on how it compared price-wise with its competitors.

The fact that textbook publishers may be enjoying high profits due to the way the market operates does not automatically raise antitrust concerns. However, the way in which publishers react to legitimate attempts to make the market more competitive may deserve better scrutiny. For example, it appears that publishers are releasing new editions of textbooks at shorter and shorter intervals. Are these new editions warranted by advances in the subject matter covered in the textbook, or are they simply a tool to prevent a competitor (i.e., the used textbook) from reaching price-sensitive students? Perhaps the California Legislature is onto something.