

File Sharing, Technology Adoption and Policy Analysis

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The increasing use of the Internet over the last twenty years has changed the way people purchase goods and services, including physical and digital music. The main goal of this dissertation is to investigate the extent to which online activity crowds out purchases. The first essay explores whether illegal file sharing crowds out or complements both online and offline music purchases. The second essay investigates whether Internet purchases, because they are tax free, reduce offline purchases.

1 Does File Sharing Crowd Out Copyrighted Goods?

Evidence from the Music Recording Industry (*Job Market Paper*)

This paper examines the extent to which Internet file sharing crowds out purchases of both physical and digital music. The existing evidence on the effect of file sharing on music sales has been mixed and focused mainly on the period 1999-2001. Using a representative survey for 2004-2006, I find that, in contrast to the previous studies, illegal downloads and legal music purchases are positively correlated across individuals. Since this correlation could reflect an unobserved taste for music, I instrument for the propensity to download illegally with the interaction of measures of ethical behavior and comfort with computer technology. Using this identification strategy with both a standard probit estimation and a semiparametric rank correlation based estimation, I find legal music purchases and illegal music downloads are complements.

A second related issue, which has not been explored by previous studies, is the impact of illegal downloads on attendance at live performances. Revenue from live performances is increasingly significant to performing acts. The previous model is modified to explore to what extent illegal downloads are complements to attendance at live performance.

2 Tax Policies and New Internet Goods: Evidence from a Natural Experiment (*in progress*)

This paper investigates the effect of a change in local tax policy on Internet purchases and whether a reduction in sales tax increases offline purchases. Empirical research on tax policies and Internet goods has been limited. Goolsbee (2000) finds people living in high sales taxes locations are more likely to buy goods over the Internet. This paper exploits an unexpected decline in the New York state sales tax in June 2005 as a natural experiment. While the treatment group is the New York state residents, I choose the control group to be either residents of neighboring states or everyone else in the United States. I examine the consumption of Internet goods, including automobiles, groceries and nonprescription drugs, before and after the unexpected change in local tax policy.