

**SPEA – A464**  
**Economics and Administration of Artistic Organizations**  
**Spring 2009**

**Course Outline**

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I am always ready to schedule appointments to meet students (just send an email or meet me after class), and you should always feel free to drop by – my door is open.

***Course Description***

This course introduces students to those economic and management techniques that will aid in their decision-making in arts organizations, big or small, for-profit, nonprofit, or public sector. It does not presume any background in economics or management, and even those students who do have some background should find they learn something new in every class.

The course is organized into twenty-six “lectures”, which are not purely lectures since they will involve classroom discussion. For each of the lectures I will post notes on the Oncourse site, which students ought to check regularly for announcements. These lecture notes are “rough”, designed as notes, and should be read with that in mind.

The plan is that each lecture is covered in one class, but be aware that we need to be flexible, and that some topics might take more or less time than anticipated. The outline that follows is a guide, but adjustments may be necessary.

Note there are two sorts of readings in this course: (1) Documents on the web, where you simply follow the URL as provided; and (2) Articles from journals.

*All* of the journal articles listed below are available online in the IU library. To find articles, go to the IU homepage, then:

- Click “Libraries”
- Click "Resource Gateway"
- Click “Online Full-Text Journals”
- Type the “Journal Title” in the space provided, and click “Search”
- Often a few possible links are given – choose one that includes the year you are looking for.

If you have any troubles, let me know!

## *Course Outline*

### **Part 1: Thinking Economically**

Lectures 1 – 3 (January 13, 15, 20): A toolkit of economic principles

- Marginal benefits and marginal costs;
- Fixed and variable costs;
- Cost-benefit analysis;
- Maximizing profit when the market is competitive;
- Setting a single price when the market is not perfectly competitive.

Here are three low-tech articles from the *Harvard Business Review* that will give you an idea of the sorts of questions about pricing we will be discussing in the coming weeks:

Robert J. Dolan, “How do you know when the price is right?” (September/October 1995): 174-183.

John Gourville and Dilip Soman, “Pricing and the psychology of consumption” (September 2002): 90-96.

Eric Anderson and Duncan Simester, “Mind your pricing cues” (September 2003): 96-103.

Also see:

Richard Ings, “Playing with live ammo: Debates around the role of pricing in the arts” Arts Council England [pdf here: <http://www.artscouncil.org.uk/documents/publications/phpYbpKU6.pdf>].

### **Part 2: Pricing I**

Lecture 4 (January 22): Consumers

Richard A. Peterson, “Changing arts audiences: Capitalizing on omnivorousness” Cultural Policy Center, University of Chicago, Workshop Paper: <http://culturalpolicy.uchicago.edu/pdfs/peterson1005.pdf>

François Colbert, “Entrepreneurship and leadership in marketing the arts” *International Journal of Arts Management* 6(1) (Fall 2003): 30-39.

Tak Wing Chan and John H. Goldthorpe, “The social stratification of cultural consumption: Some policy implications of a research project” *Cultural Trends* 16(4) (December 2007): 373-384.

Lecture 5 (January 27): Direct price discrimination

Tim Baker, “The bottom line? Using pricing to optimise sales and income” Arts Council England [pdf here, starting at page 23 of this file:

<http://www.artscouncil.org.uk/documents/publications/phpjHiIoa.pdf>]

In my notes have relied on the following, which are *not* required reading, but you might have a look (I have denoted articles with some high-tech components, which you need not worry about, with  $\pi$ ):

( $\pi$ ) Sherwin Rosen and Andrew M. Rosenfield, “Ticket pricing” *Journal of Law and Economics* 40(2) (October 1997): 351-376.

( $\pi$ ) Pascal Courty, “Ticket pricing under demand uncertainty” *Journal of Law and Economics* 46(2) (October 2003): 627-652.

Pascal Courty, “Some economics of ticket resale” *Journal of Economic Perspectives* 17(2) (Spring 2003): 85-97.

( $\pi$ ) Phillip Leslie, “Price discrimination in Broadway theater” *Rand Journal of Economics* 35(3) (Autumn 2004): 520-541.

Lecture 6 (January 29): Two-part pricing

No required reading, but the classic article is:

( $\pi$ ) Walter Y. Oi, “A Disneyland dilemma: Two-part tariffs for a Mickey Mouse monopoly” *Quarterly Journal of Economics* 85(1) (February 1971): 77-96.

Lecture 7 (February 3): Indirect price discrimination – bundling and quantity discounts

Again, no required reading, but for my notes I relied on:

( $\pi$ ) William James Adams and Janet L. Yellen, “Commodity bundling and the burden of monopoly” *Quarterly Journal of Economics* 90(3) (August 1976): 475-498.

( $\pi$ ) Yoram Kinberg, Ambar G. Rao and Ephraim F. Sudit, “Optimal resource allocations between spot and package demands” *Management Science* 26(9) (September 1980): 890-900.

Lecture 8 (February 5): Yield management

Serguei Netessine and Robert Shumsky, “Yield management”. [Working paper here:

[http://mba.tuck.dartmouth.edu/pages/faculty/robert.shumsky/Yield\\_management\\_note.PDF](http://mba.tuck.dartmouth.edu/pages/faculty/robert.shumsky/Yield_management_note.PDF)]

## Mid-Term Quiz #1: February 10.

### Part 3: Organizational Form

Lecture 9 (February 12): The basic economics of organizations

- The consequences of our limited knowledge and powers of observation;
- The make-or-buy problem;
- The hold-up problem.

Lecture 10 (February 17): Nonprofit organizations – foundations

Eugene F. Fama and Michael C. Jensen, “Separation of ownership and control” *Journal of Law and Economics* 26 (June 1983): 301-325.

Henry B. Hansmann, “The role of nonprofit enterprise” *Yale Law Journal* 89(5) (April 1980): 835-901. [note this is online in the JSTOR Arts and Sciences IV Collection].

Evelyn Brody, “Agents without principals: The economic convergence of the nonprofit and for-profit organizational forms” *New York Law School Law Review* 40(3) (1996): 457-535 [you can download the paper for free here: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=918230](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=918230)]

Lecture 11 (February 19): The goals of nonprofit organizations

No required reading, but my notes are drawn from:

( $\pi$ ) J. Newhouse, “Toward a theory of nonprofit institutions: An economic model of a hospital” *American Economic Review* 60(1) (March 1970): 64-74.

( $\pi$ ) Henry Hansmann, “Nonprofit enterprise in the performing arts” *Bell Journal of Economics* 12 (1981): 341-361.

Mary Ann Glynn, “When cymbals become symbols: Conflict over organizational identity within a symphony orchestra” *Organizational Science* 11(3) (May/June 2000): 285-298.

( $\pi$ ) Arthur C. Brooks and Jan I. Ondrich, “Quality, service level, or empire: Which is the objective of the nonprofit arts firm?” *Journal of Cultural Economics* 31(2) (2007): 129-142.

Lecture 12 (February 24): Mergers and alliances

Stefan Toepler, Cara Seitchek and Theresa Cameron, “Small organization mergers in arts and humanities” *Nonprofit Management and Leadership* 15(1) (Fall 2004): 95-115.

Grantmakers in the Arts, "Dancing with different partners: Mergers, alliances, and just plain cooperation" (2004). [pdf download on this page: [http://www.giarts.org/library\\_additional/library\\_additional\\_show.htm?doc\\_id=295551](http://www.giarts.org/library_additional/library_additional_show.htm?doc_id=295551)].

Lecture 13 (February 26): The influence of stakeholders (especially the state)

Victoria D. Alexander, "Pictures at an exhibition: Conflicting pressures in museums and the display of art" *American Journal of Sociology* 101(4) (January 1996): 797-839.

Bruno S. Frey, "State support and creativity in the arts: Some new considerations" *Journal of Cultural Economics* 23(1/2) (1999): 71-85.

Kwangho Jung and M. Jae Moon, "The double-edged sword of public-resource dependence: The impact of public resources on autonomy and legitimacy in Korean cultural nonprofit organizations" *Policy Studies Journal* 35(2) (2007): 205-226.

Lecture 14 (March 3): Performance measures: General

Steven Kerr, "On the Folly of Rewarding A, While Hoping for B" *Academy of Management Journal* 18(4) (1975): 769-783.

Robert S. Kaplan, "Strategic performance measurement and management in nonprofit organizations" *Nonprofit Management and Leadership* 11(3) (Spring 2001): 353-370.

Gerhard Speckbacher, "The economics of performance management in nonprofit organizations" *Nonprofit Management and Leadership* 13(3) (Spring 2003): 267-281.

Lecture 15 (March 5) Performance measures in the arts

J. Mark Schuster, "The Performance of Performance Indicators in the Arts" *Nonprofit Management and Leadership* 7(3) (1997): 253-269. [Note this article is *not* available online – I will make it available somehow].

Ian Gilhespy, "Evaluation of Social Objectives in Cultural Organizations" *International Journal of Arts Management* 4(1) (2001): 48-57. [Ditto].

Ruth Towse, "Quis custodiet? Or managing the management: The case of the Royal Opera House, Covent Garden" *International Journal of Arts Management* 3(3) (Spring 2001): 38-50 [Ditto].

Lecture 16 (March 10): Taxation and nonprofits

J. Mark Schuster, "The other side of the subsidized muse: Indirect aid revisited" *Journal of Cultural Economics* 23(1/2) (1999): 51-70.

Arthur C. Brooks, "Taxes, subsidies, and listeners like you: Public policy and contributions to public radio" *Public Administration Review* 63(5) (September/October 2003): 554-561.

Arthur C. Brooks, "The effects of public policy on private charity" *Administration and Society* 36(2) (May 2004): 166-185.

Michael Rushton, "Federal Tax Policy" [This is a draft version of a book chapter – I will post it on Oncourse].

## **Mid-Term Quiz #2: March 12.**

### **Spring Break**

#### **Part 4: Pricing II**

Lecture 17 (March 24): Nonprofit pricing

Richard Steinberg and Burton A. Weisbrod, "Pricing and rationing by nonprofit organizations with distributional objectives" In B. Weisbrod (ed.) *To Profit or Not to Profit* (Cambridge University Press, 1998).

Dennis R. Young and Taehyun Jung, "Mission-market tensions and nonprofit pricing" Andrew Young School of Policy Studies, Georgia State University, Working Paper 08-03 (2008). [Free download here: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1083806](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1083806)].

Lecture 18 (March 26): Applications – Live performing arts

Philippe Ravanans, "Hitting a high note: The Chicago Symphony Orchestra reverses a decade of decline with new programs, new services and new prices" *International Journal of Arts Management* 10(2) (Winter 2008): 68-87.

In my notes I also rely on (non-required):

Imran S. Currim, Charles B. Weinberg and Dick R. Wittink, "Design of subscription programs for a performing arts series" *Journal of Consumer Research* 8 (June 1981): 67-75.

( $\pi$ ) Asim Ansari, S. Siddarth and Charles B. Weinberg, "Pricing a bundle of products or services: The case of nonprofits" *Journal of Marketing Research* 33(1) (February 1996): 86-93.

Lecture 19 (March 31): Applications – Museums

Stefan Toepler, "Conceptualizing nonprofit commercialism: A case study" *Public Administration and Management* 9(4) (2004): 1-19 [available here: <http://www.pamij.com/v9n4/pam-9-4-toepler.pdf>].

Ruth Rentschler, Anne-Marie Hede and Tabitha R. White, "Museum pricing: Challenges to theory development and practice" *International Journal of Nonprofit and Voluntary Sector Marketing* 12(2) (May 2007): 163-173.

Ben Cowell, "Measuring the impact of free admission" *Cultural Trends* 16(3) (September 2007): 203-224.

(π) David Maddison and Terry Foster, "Valuing congestion costs in the British Museum" *Oxford Economic Papers* 55 (2003): 173-190.

## **Part 5: Strategy**

Lecture 20 (April 2): Understanding the market environment

Michael E. Porter, "How competitive forces shape strategy" *Harvard Business Review* (March/April 1979): 137-145.

Lecture 21 (April 7): Thinking strategically

**April 9 no class** (I am attending the Association of Arts Administration Educators).

Lecture 22 (April 14): Co-operation and dealing with spillovers

**Mid-Term Quiz #3: April 16.**

## **Part 6: Leadership**

Lecture 23 (April 21): Leadership styles

David Cray, Loretta Inglis and Susan Freeman, "Managing the arts: Leadership and decision making under dual rationalities" *Journal of Arts Management, Law and Society* 36(4) (Winter 2007): 295-313.

Lecture 24 (April 24): Leading Turnaround

Michael M. Kaiser, *The Art of the Turnaround* (Brandeis University Press, 2008), cases 1 & 2 (Kansas City Ballet, and Alvin Ailey Dance Theater Foundation).

Lectures 25 & 26 (April 28, 30): Good to great

Jim Collins, *Good to Great and the Social Sectors* (2005).

**Final Exam: Tuesday May 5, 2:45-4:45.**

## ***Evaluation and Grading***

There will be three mid-term quizzes each worth 20 marks, and a final exam on May 5 worth 40 marks. You *must* be here for the final exam – please do not tell me that you have made arrangements for a surfing holiday in Peru with a flight that leaves on the evening of May 4.

The grading scale is as follows:

Letter grade	Percentage
A+	97-100
A	93-96.99
A-	90-92.99
B+	87-89.99
B	83-86.99
B-	80-82.99
C+	77-79.99
C	73-76.99

### **SPEA Academic Policies - Academic Dishonesty**

SPEA faculty do not tolerate cheating, plagiarism, or any other form of academic dishonesty. If you have not done so, you should read the IUB Code of Student Rights, Responsibilities, and Conduct, which can be accessed at <http://dsa.indiana.edu/Code/> so you will be sure to understand what these terms mean and what penalties can be issued for academic dishonesty. Academic dishonesty can result in a grade of F for the class (an F for academic dishonesty cannot be removed from the transcript). Significant violations of the Code can result in expulsion from the University.

Plagiarism is using another person's words, ideas, artistic creations, or other intellectual property without giving proper credit. According to the Code of Student Rights, Responsibilities, and Conduct, a student must give credit to the work of another person when he does any of the following:

- a. Quotes another person's actual words, either oral or written;
- b. Paraphrases another person's words, either oral or written;
- c. Uses another person's idea, opinion, or theory; or
- d. Borrows facts, statistics, or other illustrative material, unless the information is common knowledge.

### **AMERICANS WITH DISABILITIES ACT STATEMENT:**

I will make accommodations for students registered with Adaptive Educational Services (AES) on the Indianapolis campus (Phone: 317-274-3241 or e-mail [AES@iupui.edu](mailto:AES@iupui.edu)) or the Disability Services for Students Office in Franklin Hall on the Bloomington campus (Phone: 812-855-7578).