

## **Vertical Incentives for Investment and Differentiation in the Chinese Film Industry**

Closed to further applications

**Faculty Member:** [Charles Hodgson](#)

This project is eligible for remote work.

### **Proposal Description:**

Firms' incentives to introduce new, differentiated products depend on the difference between expected profit and the fixed cost of product development. In this project, we examine how the vertical structure of an industry can affect these incentives. We focus on vertical integration between movie producers and exhibitors in China. Per-consumer revenue retained by the producer is higher for consumers served through vertically integrated cinemas. Producers therefore have an incentive to develop movies (new products) that cater to the tastes of those consumers served by integrated cinema chains. These incentives can increase the equilibrium diversity of products offered and consumer welfare through preference externalities in the spirit of Waldfogel (2003) when both the distribution of preferences and the location of cinema chains are geographically heterogeneous. To quantify how vertical structure affects the equilibrium set of products, we will develop a model of demand for films in a latent preference type space and propose a counterfactual in which firms can optimally reposition films in this space. We will estimate this model using cinema-film-week level box office data that covers the whole of China over 5 years.

### **Requisite Skills and Qualifications:**

The RA will help with compiling and cleaning data on cinema chains and movie producers and running statistical analyses. Chinese language skills are required. The RA should have an interest in the project and experience with Stata or R. Experience with Python is a plus. Experience with web scraping is a plus.

**Award:** Ran Wang

Oscar Wang

**Tobin Application Link:** [Tobin Application](#)

**Project Type:** Tobin RA

**Project Year:** 2020

**Term:** Fall 2020

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