Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry (Routledge Studies in Contemporary Political Economy)

Arthur De Vany
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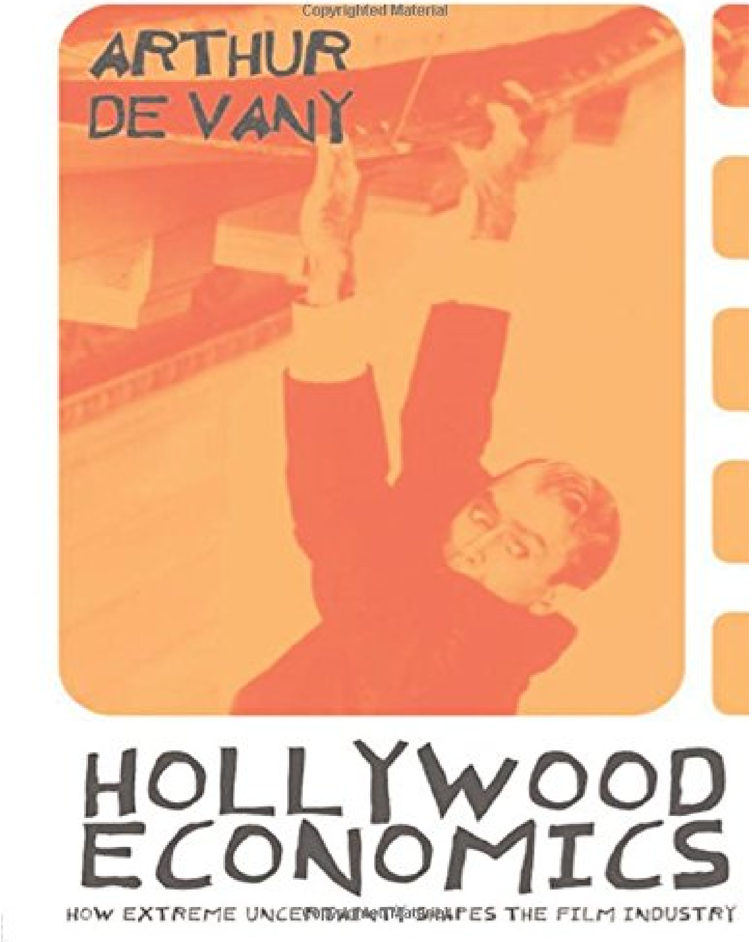

#250725 in Books Arthur De Vany 2003-11-15 2003-09-25Original language:EnglishPDF # 1 11.00 x .74 x 8.50l, 1.10 #File Name: 0415312612328 pagesHollywood Economics How Extreme Uncertainty Shapes the Film Industry | File size: 44.Mb

Arthur De Vany : Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry (Routledge Studies in Contemporary Political Economy) before purchasing it in order to gage whether or not it would be worth my time, and all praised Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry (Routledge Studies in Contemporary Political Economy):

8 of 8 people found the following review helpful. A skeptic looks at the movie businessBy Vincent PoirierHow can you predict the success or failure of a film? Even if you can't predict with perfect accuracy, can you predict which movies will probably be a hit? For example, does a star guarantee a hit? Do big budgets matter? Do ratings ensure a

certain level of profit? Does a movie's gross receipts in its first week predict its total gross over the entire run?The media clearly shows that movie makers go for big stars in expensive racy or violent films that are widely distributed from the first week they open. This is what Hollywood thinks creates true hits. But think twice about trusting Hollywood instincts: Arthur De Vany looks at the empirical evidence on movie revenue and concludes that this conventional wisdom should be rejected.De Vany shows that while stars and big budgets do indicate a movie's revenue scale, they do not predict its success. Big stars have made expensive turkeys (e.g. Waterworld starring Kevin Costner) while on the other hand huge hits have been produced without stars (e.g. Home Alone). One of the more interesting conclusions is that the old movie studio system understood implicitly that this business was unpredictable. Until the antitrust laws were used to break them up, the studios contracted stars, script writers, directors, distribution networks and movie theaters in order to own the entire stream of revenues all their movies would generate.This way the old studio bosses could diversify their risk in what was essentially a portfolio of movies. They knew that they could not predict which of their films would be a hit so they insisted on owning them all and on managing costs so that the hits would pay for the turkeys, while leaving shareholders with a healthy return.These results are fascinating and have a wide range of application beyond Hollywood, particularly in uncertain hit-or-miss industries as unrelated to the movies as are gold mining and oil drilling.One word of warning. Despite what the blurb says, the book is technical. Each of the twelve chapters is a peer-reviewed academic paper in economics making full use of all the quantitative analysis tools available to a professional researcher. To get the full message, you need enough basic statistics to understand conditional probabilities, first and second moments, cumulative functions, linear regression, etc. However, each of these chapters also comes with an intro and conclusion worded in plain English. So as long as you're willing to trust the peer reviews, you don't actually need to do the math yourself.Vincent Poirier, Dublin18 of 18 people found the following review helpful. profound and imaginative treatment of the movie bizBy William BenzonDe Vany presents a profound and imaginative treatment of the economics of the movie business, one that has implications, not only for similar businesses such as publishing and music, but for our understanding of the dynamics of culture. When Richard Dawkins coined the term "meme" he unwittingly paved the way for tons and tons of sexy but shallow commentary on human culture. Though that is not what he set out to do - "meme" never shows up in the book - De Vany has given mathematical form to the behavior of movie memes and has demonstrated that it is the people who are in change, not the memes.In the words of screen writer William Goldman, "nobody knows anything" about what happens to movies once they are released to the theatres. Most movies don't even break even, much less make a profit - not in theatrical release, which is what De Vany investigates. [These days, movies make money on DVDs and TV, but that's another story, told by Jay Epstein.] That's no way to run a business, but the problems are inherent in the nature of movies as a business venture. The deep and ineradicable condition of the business is that there is no reliable way to find out whether or not your movie has a market other than putting it on screens across the country and seeing if people come to watch.Does having "bankable" names on the marquee guarantee that the movie will make bank? No. Does opening big on thousands of screens with PR from here to the moon guarantee that the movie will make bank? No. Does a small opening mean the film is doomed? No. Hence Goldman's remark.But all is not chaos. Or rather it is, but chaos of the mathematical kind. De Vany shows that about 3 or 4 weeks into circulation movie dynamics (that is, the dynamics of people coming to theatres to watch a movie) hit a bifurcation. Most movies enter a trajectory that leads to diminishing attendance and no profits. But a few enter a trajectory that leads to continuing attendance and, eventually, a profit. Among these, a very few become block busters.And those few come to dominate the statistics of movie economics. From the point of view of statistics based on the normal distribution those few are movies outliers and should be discounted. De Vany develops a statistical framework - he calls it the stable Paretian model - that gives proper attention to those block busters. The model is stable in the sense that it exhibits the same structure at all scales.* * * * *De Vany devotes particular attention to the structure of the movie business. During its glory years the industry was organized by the studio system. The studios owned both the means of production and the means of distribution. Stars, directors, writers, and craftspeople, all were on staff at the studios. When it came time to release films, the studio's distribution system went to work and the films went out to theaters owned by the studios and to independent theaters with long-term booking arrangement. The system worked well.But in the 1950s an anti-trust action was brought against the studios and they were ordered to divest themselves of their theaters and stop the cozy booking arrangements. The result of that was that was that they lost the stars, directors, writers, and producers - who became independent contractors - and the costs of production went up. And those increased costs were passed on to the movie-goer.De Vany argues, convincingly, that the studios were not a cartel that drove up prices for their own benefit. Rather, their arrangements, their ownership of theaters, helped them cope with the extreme uncertainty of the business. They had just enough direct control over exhibition practices to stabilize their income so that they could afford to keep the talent on staff. Once that stability was taken from them, they had to let the talent go. And that, in turn, meant that, each time a film was to be made, someone had to go out into the marketplace and put the team together, thus incurring transaction costs that didn't exist in the studio system.* * * * *An excellent book. Note that it's thick with mathmatics. But it also has lots of charts. You can read those even if you can't make sense of the equations.4 of 6 people found the following review helpful. Wow.By G. HeyworthI skipped the high-falutin' parts with integral calculus...BUT: Anyone who is investing a nickel in ANY entertainment medium should read this book. The buying public is discerning, fickle and SMART. Crap stinks and the first to catch a wiff of a film that stinks are like Paul Revere coming out of the theater. On the other hand, a great film can fizzle due to any number of peculiar reasons such as distribution decisions or competing releases. There is also interesting treatment of the demise of studio-owned movie houses and an argument in favor of lifting the ban.William Goldman ("nobody knows nothin'", or something like that) has it figured out: write screenplays and wait. The Princess Bride, case in point. He even wrote the book AFTER the movie hit big.Let somebody else put his money into film production. There is a fine line between genius and lunacy...the buying public determines which he is.

Just how risky is the movie industry? Is screenwriter William Goldman's claim that "nobody knows anything" really true? Can a star and a big opening change a movie's risks and return? Do studio executives really earn their huge paychecks? These and many other questions are answered in Hollywood Economics. The book uses powerful analytical models to uncover the wild uncertainty that shapes the industry. The centerpiece of the analysis is the unpredictable and often chaotic dynamic behaviour of motion picture audiences. This unique and important book will be of interest to students and researchers involved in the economics of movies, industrial economics and business studies. The book will also be a real eye-opener for film writers, movie executives, finance and risk management professionals as well as more general movie fans.

'If you want an applied exposition of the "wild" type of uncertainty, this is the book. I know of no better text to understand kurtosis, the contribution of the very small to the very large, and the dynamics of rare events. The value of this book lies way beyond the film industry. In addition it is is written with great clarity and does not use anything beyond intuitive mathematics.' Nassim Nicholas Taleb, PhD, Empirica LLC, Bestselling author of Fooled by Randomness 'A heretical and wise perspective on the economics and consumer patterns of Hollywood. Provocative and eye opening for its depth and intelligent analysis.' Thom Mount, Producer and former Universal Studios President 'This book provides dramatic evidence that, in comparison with the film industry, normally uncertain things are virtually sure things. Not even popular stars or large first-week audiences are valid predictors of a film's future success. The volume demonstrates what sophisticated analysis can and cannot reveal about an industry in which "no one knows anything". It will be extremely valuable to anyone with an intellectual, financial or other interest in the market for popular films and for anyone concerned with analysis of subjects characterized by extreme uncertainty. Nonspecialists should not be daunted by the demanding technical analysis for there is plenty that will readily be understandable and fascinating to any intelligent reader.' William J. Baumol, Professor of Economics, New York University and Senior Research Economist at Princeton University, USA 'Professor De Vany has written a seminal work on the risks of film investment, a topic with which Hollywood may be painfully familiar, but which has rarely, if ever, been the subject of such thorough analysis. Through his statistical studies and analyses, Professor De Vany questions many of the assumptions made by Hollywood dealmakers, investors and studio executives.' Sam Pryor, Partner, Alschuler Grossman Stein Kahan, Adjunct Professor, Entertainment Law, USC Law School About the AuthorArthur De Vany is Professor Emeritus of Economics at the University of California, Irvine and President of Arts Analytica, a consulting company specializing in energy, motion pictures and risk-return analysis.