Notes

The following abbreviations are used for the titles of frequently cited newspapers and periodicals:

BG	*Boston Globe*
BW	*Business Week*
JCE	*Journal of Cultural Economics*
NYT	*New York Times*
NYTNE	*New York Times* New England Edition
PW	*Publishers Weekly*
WSJ	*Wall Street Journal*

Introduction

1. William D. Grampp, *Pricing the Priceless: Art, Artists, and Economics* (New York: Basic Books, 1989).
2. When the CBS network was approached with the idea of a puppet show with various animal characters, the network responded that its research division had established that there was no demand for a program hosted by a frog. Kermit thus sprang directly into independent syndication. See David F. Prindle, *Risky Business: The Political Economy of Hollywood* (Boulder, Colo.: Westview Press, 1993), p. 34.
3. I give it this name in honor of William Goldman's much-quoted observation about the motion picture industry: "Nobody Knows Anything." See William Goldman, *Adventures in the Screen Trade: A Personal View of Hollywood and Screenwriting* (New York: Warner Books, 1984), p. 39. That is, producers and executives know a great deal about what has succeeded commercially in the past and constantly seek to extrapolate that knowledge to new projects. But their ability to predict at an early stage the commercial success of a new film project is almost nonexistent.
4. William T. Bielby and Denise D. Bielby, "'All Hits Are Flukes': Institutionalized Decision Making and the Rhetoric of Network Prime Time Program Development," *American Journal of Sociology* 99 (March 1994): 1287–1313.
5. For a theoretical demonstration of the efficiency of option contracts, see Georg Nöldeke and Klaus M. Schmidt, "Sequential Investments and Options to Own," *RAND Journal of Economics* 29 (Winter 1998): 633–653.

6. See Albert Guérard, *Art for Art's Sake* (Boston: Lothrop, Lee, and Shephard, 1936), especially pp. 34–35; Raymond Williams, *Culture and Society, 1780–1950* (New York: Columbia University Press, 1958), ch. 2.
7. Howard S. Becker, *Art Worlds* (Berkeley: University of California Press, 1982), pp. 199–200.
8. This theory was so named in reference to the ill-fated *Challenger* space shuttle. See Michael Kremer, "The O-Rings Theory of Economic Development," *Quarterly Journal of Economics* 108 (August 1993): 551–575.
9. The concepts of fixed and sunk costs surface repeatedly in this book, so their definitions must be clear. A fixed cost of producing some article is one that does not vary with the number of units produced. A sunk cost is one that cannot be recovered if production ceases. Fixed costs are frequently sunk and vice versa—the specialized chemical plant that has no other use, if the market for its product disappears—but they may diverge. The "first-copy cost" of producing a newspaper is fixed, regardless of how many copies are printed, but avoidable when the newspaper ceases publication. The visual artist's costs increase in proportion to the number of canvases she paints (are not fixed), but they are sunk and cannot be recovered if nobody likes her paintings.
10. Becker, *Art Worlds,* pp. 352–353, 362.
11. Rent is an economic concept that recurs throughout this book. For the artist it is the difference between earnings in a successful creative role and in the next-best occupation: Arnold Schwarznegger in *Terminator* films versus, say, running a gym. What revenue is available for capture as rent depends on the revenue that the successful artist's film brings in minus the cost of other inputs. The artist's pay (including the rent) is often negotiated before that revenue is known, which means simply that the entrepreneur making the film has to guess the expected revenue while bidding for the artist's services.
12. Rent here takes on a slightly different sense from that explained in note 11. Once the fixed costs of a successful creative product (a book, say) are incurred, the publisher can supply it to many consumers, each willing to pay more than the *incremental* cost of another copy. That net revenue is a rent to the owner of the copyright, one that the author tried to capture (in anticipation) under the original contract. For the publisher the rent in part recoups the humdrum component of his fixed cost; what goes to the author is a rent to talent, once it exceeds the humdrum wages forgone while she wrote the book.
13. Herbert J. Gans, *Popular Culture and High Culture: An Analysis and Evaluation of Taste* (New York: Basic Books, 1974).
14. Clement Greenberg, *Art and Culture: Critical Essays* (Boston: Beacon Press, 1961), especially pp. 4–12.
15. For a good, simple account see Paul Milgrom and John Roberts, *Economics, Organization and Management* (Englewood Cliffs, N.J.: Prentice Hall, 1992), chs. 5–7.
16. Theoretically, parties can write a contract so that their expected profit shares add up to more than 100 percent, by injecting cash contributions at the start that allow more than the whole profit "pie" to be divided at the end.
17. It is important that performance under contracts can be observed by persons not party to that contract. Otherwise, "he said, she said" problems arise, and addi-

tional hold-up possibilities appear in the form of false charges that a contract partner has misbehaved and incurred a penalty.