

12th edition
Gwartney - Stroup
Sobel - Macpherson

The Internet: How Is It Changing the Economy?

Full Length Text — Part: 6 Chapter: 2
Micro Only Text — Part: 4 Chapter: 2
Macro Only Text — Part: 5 Chapter: 2

To Accompany "Economics: Private and Public Choice 12th ed."
James Gwartney, Richard Stroup, Russell Sobel, & David Macpherson
Slides authored and animated by:
James Gwartney, David Macpherson, & Charles Skipton

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Use of the Internet

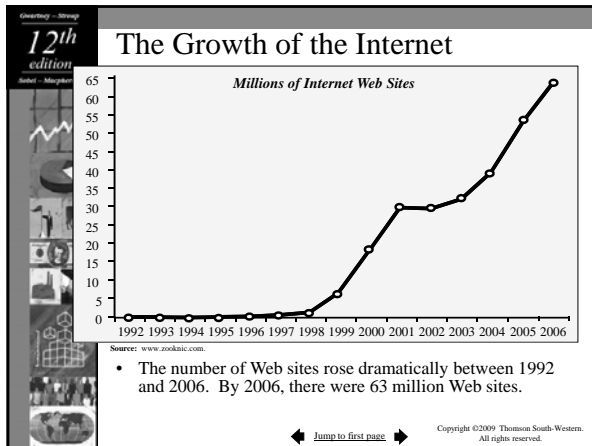
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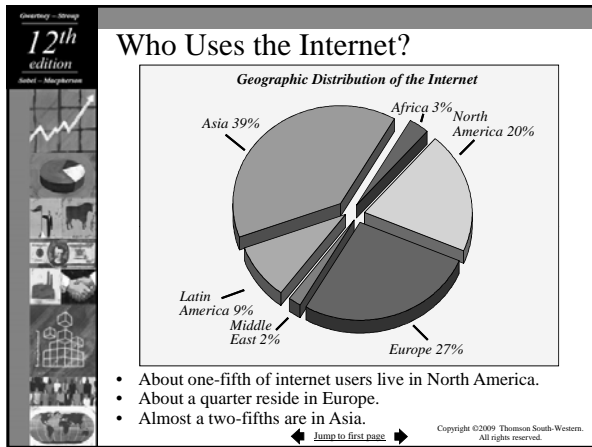
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Use of the Internet

- Use of the Internet has grown dramatically since the early 1990s and is now a worldwide phenomenon.

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Economic Gains from the Internet

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Potential Gains from the Internet

- Sources of economic gains from the Internet:
 - Lower transaction costs.
 - Broader and more competitive markets.
 - Networking.

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Key Sectors of Internet Growth

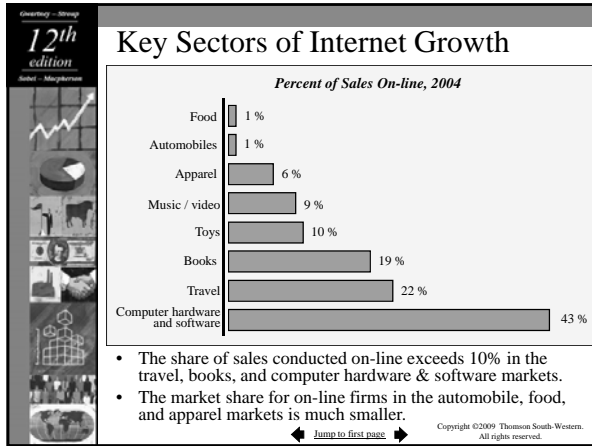
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Key Sectors of Internet Growth

- The Internet is now used extensively in several consumer markets such as airline tickets, books, music, and videos.
- eBay has revolutionized the market for used consumer durables.
- The Internet is quickly transforming how banking is conducted as the number of households paying their bills online is rapidly increasing.

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More Efficient Consumer Markets


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More Efficient Consumer Markets

- The Internet helps create value in final product markets by either reducing sellers' costs or improving the matches between sellers and consumers.
 - Improved efficiency in both production and distribution have reduced costs.
 - Matches are improved through better information about available goods, greater access to goods, and increased customization.

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More Efficient Input Markets and Production Processes

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More Efficient Input Markets

- The ability of the Internet to improve matches between buyers and sellers also applies to business-to-business transactions.
- The Internet can lower transactions costs between companies.

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Labor Markets and the Internet

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Labor Market and the Internet

- The Internet is rapidly becoming an integral part of the job search process.
- The reduction in the cost of information through the Internet will tend to lower the rate of unemployment and improve the match between jobs and employee skills.
- The Internet also makes it possible for many employees to work at home and at other locations.

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Questions for Thought:

1. What impact does the Internet have on the efficiency of markets? Explain. How is the Internet likely to influence productivity and the growth of output in the years immediately ahead?
2. The share of airline tickets bought over the Internet has grown rapidly, while the percent of groceries purchased online remains minuscule. What factors likely explain this difference?

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Questions for Thought:

3. Many people now have fast broadband connections to the web. Can you think of product markets that have been substantively impacted by this change?
4. How is the internet influencing the production, marketing, and distribution of:
(a) popular music,
(b) movies,
(c) automobiles,
(d) commercial employment agencies,
(e) beautician services, and
(f) health care.
Briefly explain your response.

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