

1. *'Sales of adult fiction in hardback had fallen by over 10%, while cheaper paperback by only 6%. The price people are willing to pay is falling, while hard-cover prices are climbing. The Association of American Publishers announced that the "explosive growth" of e-books account for 13.6% of adult fiction market in America, with burgeoning e-books sales increasing by over 1000% in the last three years after the launch of the e-book reader.'*

Adapted from: The Daily Telegraph August 2011

- (a) Explain the likely reasons for the overwhelming increase in sales of e-books. [10]
(b) With the aid of relevant concepts, analyse the impact of the e-book trend on the publishing and related industries. [15]

Suggested answer

- (a) Explain the likely reasons for the overwhelming increase in sales of e-books. [10]

Synopsis: *To look into the different factors affecting the 'overwhelming' increase in sales' of e-books. The sales of e-books is represented by an increase in the equilibrium quantity of e-books. These factors should be linked to increases in demand and supply of e-books.*

1. Intro

- Explain that increases in sales of e-books can be due to rising DD for e-books or rising SS of e-books.

2. Increase in sales could be due to increasing demand.

Focus should be on the increasing equilibrium quantity (**Draw and show**). Factors responsible for this :

- **Change in taste and preference in favour of e-books:** Explain the features of an e-book : An ebook is a book in electronic format. It is downloaded to a computer, PC, Mac, laptop, PDA or any other kind of computer, and is read on the screen. It can have numbered pages, table of contents, pictures and graphics, exactly like a printed book. Advantage of an e-book : easy storage, environmentally friendly, ability to show links for easy access to more information.
- **Increase in income**
- **Increase in the price of traditional books (substitutes)**
- **Fall in price of e-book readers as well as increase in availability of e-book readers (complements)** on other devices such as handphones, etc

3. Increase in sales could be due to increasing supply

Focus should be on the increasing equilibrium quantity (**Draw and show**). Factors responsible for this :

- Lower cost of producing e-books due to improved technology
- Increasing number of firms creating e-books due to high profits offered by ebooks

4. Increase in sales in e-books due to both rising demand and supply factors

- 5. Conclusion :** E.g DD more responsible than supply, especially change in taste and preference

L1	Answers shows some knowledge of concepts required with respect to DD and SS factor influencing sales.	1 – 4
L2	Answers that were focused on DD and/or SS factors of ebook but lacks reference to sales of ebook.	5 – 6
L3	Clear explanation of DD and/or SS factors that contributed to the increase sales of ebook with appropriate use of examples and diagrams.	7 – 10

- (b) With the aid of relevant concepts, analyse the impact of the e-book trend on the publishing and related industries. [15]

Synopsis: *To analyse how the rising sales in e-book due rising demand (non price factors) or rising supply (price factor) impact (positive and negative) publishing and related industries. In analysing the impact on markets, answers should demonstrate how the rising trend in the sales in e-book can affect the market DD and/or SS of the publishing and related markets. Attributes such as changes in equilibrium price and output, revenue etc. should be analysed.*

1. Intro

- Explain that the rising e-book trend is due to falling e-book prices (rising SS) and or rising DD
- Identify some goods and services in the publishing industry : relating bookshops (retailing industry), traditional books, paper manufacturing, printing machines, chemicals for printing, toner, photography etc.
- Identify other related industry such as e-book reader, smart phones such as I-phone and Androids

2. Impact on publishing industry : E.g traditional books (substitutes)

- Falling e-book prices leads to increase qty DD for e-books
- E-books and traditional books are substitutes. Fall in price of e-books, leads to fall in DD for traditional books. (Draw the traditional book market and explain impact on equilibrium price and output)
- Extent of fall in DD will depend on the closeness of substitutes between e-books and traditional books. XED can tell us if they are good or poor substitutes. (Explain how!)
- E-books may be close substitutes to traditional books (explain why) hence the magnitude of the fall in demand for traditional books is large
- E-books may be poor substitutes to traditional books (explain why) hence the magnitude of the fall in demand for traditional books is small
- For both the above case explain how this would determine the impact (**equilibrium price and output, revenue etc**) on the traditional book market.
- In the LR, as profitability of substitute goods (traditional books) falls, producers of substitute goods may turn to e-books and divert their resources towards the e-book market. This results in a fall in SS of the substitute goods. (draw and explain the impact on the market. Compare short run outcome to LR outcome. Explain that overall outcome is dependent on the magnitude of shift between LR and SR)

3. Impact on other related industry : E.g paper manufacturing (derive demand to traditional books)

- As the demand for traditional books falls, the demand for paper to produce these books also falls as they are in derived demand (explain).
- The demand in the paper will fall. (Draw the paper market and explain impact on equilibrium price and output)
- Similarly in the LR as the paper to produce traditional books contracts, more firms may leave the market due to falling profits. This results in a fall in SS. Final outcome in the market depends on relative shifts between DD and SS)

4. Impact on related industry : E.g Smartphones (complements)

- E-books and smartphones are complements. Fall in price of e-books, leads to rise in DD for smartphones. (Draw the smartphones market and explain impact on equilibrium price and output)

- Extent of rise in DD will depend on the closeness of complements between e-books and smartphones. XED can tell us if they are good or poor complements. (Explain how!)
- E-books may be close complements to smartphones (explain why) hence the magnitude of the rise in demand for smartphones is large
- E-books may be poor complements to smartphones (explain why) hence the magnitude of the rise in demand for smartphones is small
- For both the above case explain how this would determine the impact on the traditional book market.
- In the LR, as profitability of complementary goods (e.g. smartphones) rise, more firms may enter the smartphone industry. This results in a rise in SS of the complementary goods. (draw and explain the impact on the market) . Compare short run outcome to LR outcome. Explain that overall outcome is dependent on the magnitude of shift between LR and SR)

5. Impact on other related industry : E.g Software (derive demand)

- As the demand for e-book rises, softwares that are used to create these ebooks will expand as well. These goods are in derived demand. (Explain)
- The demand in the software industries will rise. (Draw the software market and explain impact on equilibrium price and output)
- Similarly in the LR as the software to create ebooks expands, more firms may enter the market due to rising profits. The rising supply may erode the profits as prices falls (Final outcome in the market depends on relative shifts between DD and SS)

6. Conclusion

As the sales of e-book expands rapidly, its impact is felt across several markets that are related to it as well as market that are related to markets that are affected.

L1	Superficial answers that attempts to explain how publishing and related industries are affected by rising sales in e-book.	1 – 5
L2	Clear explanation of how the market (equilibrium price and output, profits...etc) of substitutes and complements are affected by the rising sales of e-book.	6 – 8
L3	Clear explanation of how the market (equilibrium price and output, profits...etc) of substitutes and complements as well as goods that are in derived demand (bookshops, printing, paper, IT industry : publishing and non publishing) are affected by the rising sales of e-book.	9-11

E 1	Answer attempts to provide an unexplained judgement on the outcome in the publishing as well as non publishing industry.	1-2
E 2	Addresses the extent of changes in the market of publishing as well as non publishing industry (e.g based on closeness of substitutes and complements). Alternatively, adopts a comparison of outcome in the market of publishing as well as non publishing industry over different time periods.	3-4