

Lecture title

Product Durability and Time Inconsistency: Theoretical Analyses

Date and time

February 13 (Thursday), 2014, 14:40 – 17:50

Instructor

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Lecture outline

Durable goods produced today will become used units tomorrow. Product durability may cause a problem of time inconsistency, because durable goods sold in the future affect the future value of units sold today, and in the absence of the ability to commit, durable goods producers do not internalize this externality. This lecture introduces you to several key theoretical contributions on this topic. We will go over basic models of product durability and time inconsistency under perfect durability (Bulow 1982, 1986) and imperfect durability (Waldman 1997, 1993). Time permitting, we will discuss Morita and Waldman (2004) as an application. For an excellent survey article on this topic, see Waldman (2003).

References

Bulow, J. 1982. "Durable Goods Monopolists." *Journal of Political Economy*, pp.314-332.

Bulow, J. 1986. "An Economic Theory of Planned Obsolescence." *Quarterly Journal of Economics*, pp.729-750.

Morita, H. and Waldman, M. 2004. "Durable Goods, Monopoly Maintenance, and Time Inconsistency." *Journal of Economics & Management Strategy*, pp. 273 – 302.

Waldman, M. 1993. "A New Perspective on Planned Obsolescence." *Quarterly Journal of Economics* , pp. 273-284.

Waldman, M. 1997. "Eliminating the Market for Secondhand Goods: An Alternative Explanation for Leasing." *Journal of Law and Economics*, pp. 61-92.

Waldman, M. 2003. "Durable Goods Theory for Real World Markets." *Journal of Economic Perspectives*, pp. 131-154.