

AN ECONOMIC ANALYSIS OF TEXTBOOK PRICING AND TEXTBOOK MARKETS

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Advisory Committee
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I want to spend most of my time today discussing several of the major policy options open to the Committee and possible next steps. Prior to doing that, however, I'd like to take a few moments to sketch several of the distinctive characteristics of the American textbook market.



First, the textbook market is unusual in that the primary individuals who choose textbooks (faculty) are not the people who pay for them (students).



The market for prescription drugs is analogous---doctors prescribe drugs for patients, but do not pay for these drugs. This separation between choice and payment is one reason prescription prices have risen so rapidly.



One consequence of this separation is that student demand for textbooks is insensitive to price increases (“price inelastic” in the jargon of economists).

- Economists measure the extent of this price sensitivity by means of a coefficient known as “price elasticity of demand.”
- Several studies have indicated that this coefficient is as low as $-.2$, meaning that a ten percent increase in textbook prices will result only in a two percent decline in the number of textbooks students would like to purchase.



Second, nearly every institution of higher education has a financial stake in higher textbook prices.

- Approximately one-half of all institutions own their own bookstore and therefore profit from textbooks they sell directly to their own students.
- About 35 percent of institutions have contracted with a firm such as Follett or Barnes and Noble to operate their bookstores and therefore receive a profit stream from that contract.



Third, several practices of publishers and bookstores that have drawn critical attention realistically are rational market strategies that will persist unless there are underlying changes in the behavior of institutions and students.

- Bundling of textbook packages
- International textbook price differentials
- Frequent new textbook editions



Policy Options Available to Various Stakeholders

- Help students shop around!
- Provide incentives for institutions and their bookstores to publish all textbook lists on the Internet, supply students with each book's ISBN number, and provide a direct Internet link to used book sellers such as Amazon (an example is the University of Montana).
- Provide incentives for institutions to require the unbundling of textbook packages so students can purchase only the items they wish.



Policy Options, more

- Provide incentives for institutions to adopt textbook rental systems.
- Encourage institutions to require faculty to acquire knowledge about textbook prices and encourage them to utilize the same edition of a textbook for longer periods of time.
- Focus attention on the benefits to students of non-profit bookstores (examples include Montana, Oregon, Texas, UCLA and Wisconsin, Madison).



Policy Options, more

- Encourage institutions to negotiate lower prices for some textbooks directly with publishers.
- Encourage institutions to consider supplying textbooks as a part of their tuition and fees.
- Congress could forbid bans on the reimportation of textbooks from other countries.



Next Steps for the Committee

- Sponsor a Series of Regional Hearings to corroborate the findings of this report, gather input, and distribute information. It's always good to listen. However, the more attention focused on the problems identified here, the better. Many institutions and students simply don't know their available options. When their knowledge of the associated benefits and costs improves, they will be more likely to take action.



Next Steps, more

- Sponsor a Set of Pilot Projects providing financial incentives to institutions participating in controlled experiments involving the adoption of one or more of the textbook market actions suggested above. The resulting data and analysis will provide concrete information about the benefits and costs of these approaches and the savings students will experience.



Next Steps, more

- For example, what happens to the actual prices paid by students for textbooks when college bookstores: (1) place their textbooks lists on the Internet; (2) provide ISBN numbers for every book on that list; and, (3) provide an Internet link to outside online bookstores? Does the quality of service change?
- Well-devised, controlled tests involving institutions, publishers and bookstores will provide extremely valuable data.



Next Steps, more

- Request the DOJ and FTC to Investigate the Economics and Law of International Textbook Price Differentials and Contractual Re-importation Bans.



Next Steps, more

- Have Committee Staff Explore the Benefits and Costs of Tying Institutional Eligibility for Federal Financial Aid to institutions that adopt one or more of the textbook market innovations noted in this report.
- No doubt such requirements would be bureaucratic and unpopular, but they would change behavior.



The Power of Information

- Many of the problems we now observe in textbook markets will disappear without legislation if institutions and students have improved knowledge about their options.
- The best of all future textbook worlds will be the development of a self-correcting tidal wave of institutions that adopt some of the actions outlined here. The Committee can help establish this momentum.

