

An Economic Approach to the Ethics of Copyright Violation ¹

b = consumer benefit from the product. If the consumer copies without paying the originator, he incurs cost $n_i c$, where lack of technological sophistication n_i is distributed with density $g(n)$ on support $[0, \infty]$.

If he buys instead, he pays the price p and incurs the transaction cost t , and the originator incurs production cost c_o and transactions cost t_o .

Consumers differ in their degree of morality, m_i , distributed with density $f(m)$ and support $[0, \infty]$. The social norm consists of a pair of numbers (g, s) for guilt and self-satisfaction. A consumer who copies loses $m_i g$ in utility. A consumer who buys the product, on the other hand gains $m_i s$ in utility.

Consumer i will prefer copying to buying if

$$\pi(\text{copying}) = (b - m_i g - n_i c) > (b - p - t + m_i s) = \pi(\text{buying}) \quad (0.1)$$

It may be, however, that not using the product is better for him than either paying or copying.

The originator's payoff is $v = 0$ if the product is not used, $v = b_o$ if it is copied, and $v = p + b_o - t_o - c_o$ if it is bought.

x = the percentage of the utility of a guilty copying consumer that we count as social benefit.

$k(\text{originator payoff})$ = value of the incentive for future creation

Reasons To Not Have a Norm against Copying:

1. If the consumption benefit of copiers does not add to social welfare (x is small or negative), then making copying immoral eliminates the positive effect on social welfare that copiers would otherwise have.
2. If many people are copying, many people must feel guilt.
3. Substitution to non-use
4. The distortion created by the positive price for a good with zero marginal product (balanced by the incentive effect for creation— but a *marginal* incentive effect).

Two Useful Implications:

- (a) Copy when you wouldn't buy otherwise.
- (b) Don't copy when buying has lower real costs, unless you wouldn't buy otherwise.

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