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For a while now, maybe about 3 years, I have played a relatively non-time intensive video game called Pox Nora. The game, recently bought by Sony Online Entertainment (SOE) has gone through a few changes over the years, but by and large the model remains the same: an online, turn-based, collectable card game similar to, but still different from, the popular game Magic: The Gathering. Every once in awhile I peruse the online forums to get caught up on game news or check out what the community is talking about and recently stumbled upon a forum thread that just screamed out for me to respond to.

Subject: Why do "top sellers" cost more SOE?
Poster: Dacidd
Text: That is just stupid. If they are selling so well there is no need to charge more aside from sheer greed. That really shows what kind of people you are.

Two other posts almost immediately followed this forum post:

Subject: Re: Why do "top sellers" cost more SOE?
Poster: 8Moment
Text: supply & demand. take a business class.

Subject Re: Re: Why do "top sellers" cost more SOE?
Poster: FooSh
Text: Yes, because they are running out of electrons with which to make the cards. The word you're looking for is "gouging".

Now, I'm perfectly aware that online bulletin boards don't generally have a population that is perfectly informed; however, this forum thread did cause me to stop and wonder: if, given the limited amount of variable costs associated with producing (that is, after its initial development) a virtual product, is it the case that the mechanics of supply and demand hold true? I believe the answer is yes. That said, and before I get too much further into answering this question, I should probably explain (briefly) the general product/business model of a collectable card game.

In essence, players collect cards that are purchased in bundles of 10. Each bundle, or pack, contains a random assortment of cards with some cards being more desirable than others. Trading for the cards that a player may want is supported by SOE via other players in an online 'marketplace'. Additionally, a secondary market

exists (not supported by SOE i.e. through online auction sites) where players sell their cards, with some cards being sold for hundreds of dollars. What makes Pox Nora, and other online CCGs, unique is the fact that, unlike Magic: The Gathering, there is no physical property produced; all transactions, and all goods, only exist in a digital form which, unlike digital music, is stored on the SOE website.

To my initial question, now rephrased: in a situation where there are limited, if any, variable costs associated with production, do the mechanics of supply and demand still affect pricing? Moreover, is SOE, as one forum post suggests, 'gouging' its customer base?

Regarding supply and demand pricing I think the answer is yes. The original poster was upset due to, what he saw, as unfair pricing tactics. The newer packs of cards and the popular pack are priced at \$3.00; older, less popular, packs are priced at \$2.50. Popular packs contain cards that are valued more by players and are thus traded heavily in the secondary card market. Additionally, new and popular cards have seen more use within the game, which requires programmers to spend more time tweaking the cards. This increases the variable costs associated with production of one additional pack of cards.

Put another way, SOE is able to adjust its pricing schemes by the popularity of particular products. SOE, aware that customers are willing to pay more for these cards (and less for the others) discounts older packs that customers would otherwise be less inclined to purchase.

As to the second question: Is SOE 'gouging' its customers, I believe the answer is no; however, they are engaging in a sort of price discrimination. If we consider the more popular packs as SOE's short run supply curve and the less popular packs as SOE's long run supply curve we see that, in the end, the price *has* to come down. By being able to differentiate between short and long run pricing SOE has, to be sure, limited total consumer surplus; however, the market for collectable card games is remarkably competitive and, if SOE was actually gouging its customer base, then customers would simply move on to another game.