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Press Release

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PHOENIX CENTER FINDS MOVIE PIRACY REMAINS A SERIOUS PROBLEM

Evaluating On-Line Games is Not a Valid Approach to Study Movie Piracy

WASHINGTON, D.C. – Pirated copies of virtually every movie are available on torrent sites sometimes within days, if not hours, of their theatrical release. In a few instances, pirated copies of movies become available on-line prior to the official release date. Certainly, the first-order expectation of pre-release piracy would be reduced box office revenues, but there continue to be naysayers. In a new analysis released today entitled *Movie Leaks, Box Office Success and Child's Play: Using an On-Line Game is No Way to Quantify the Effects of Piracy*, Phoenix Center Chief Economist Dr. George S. Ford takes on one such skeptic – University of Kansas Professor Koleman Strumpf – and concludes that because Professor Strumpf's analysis suggesting that pre-release piracy has no effect on box office revenue relies on questionable data, Professor Strumpf's final results are without credibility and of little policy relevance.

In particular, Dr. Ford evaluates Professor Strumpf's attempt to measure the effects of piracy by using data from the on-line game "Hollywood Stock Exchange" ("HSX") in which players make guesses about box office revenues of movies. Dr. Ford finds that the on-line game data upon which Professor Strumpf centrally relies simply is not up to the task requested of it. For example, among other defects, Dr. Ford explains that for a predictive market such as HSX to be useful, it must be a reliable proxy for real markets, responding to information like real markets do. However, explains Dr. Ford, there is "absolutely no evidence that the HSX is a reliable predictor of the effect of piracy or, for that matter, any other 'event' in a movie's pre-release experience." Furthermore, Dr. Ford shows why Professor Strumpf's empirical model, by using prediction data, cannot, in fact, quantify the effects of piracy on box office revenues.

Also, Dr. Ford's own analysis leads to some different conclusions than those reported in Professor Strumpf's study, which is worrisome. For example, contrary to Professor Strumpf, Dr. Ford demonstrates that in the case of the leak of the movie *The Wolverine*, Dr. Ford found that the price changes on the day of and after the April 1st leak were the two largest negative returns over the sample's four-month period, reducing the price a total of 6.5% over the two days. Similarly, for the recent, high-profile leak of *The Expendables 3*, Dr. Ford found that the price changes for the two days following the leak were the two largest negative price changes over the entire sample (125 trading days).

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“Quantifying the effects of piracy is difficult but important work,” said study author George S. Ford, Chief Economist of the Phoenix Center. “While Professor Strumpf’s paper is clever and includes controversial findings, the goal of research is not to be clever and controversial but to expose the truth.”

A full copy of the paper, PHOENIX CENTER POLICY PERSPECTIVE NO. 14-07: *Movie Leaks, Box Office Success and Child’s Play: An On-Line Game is No Way to Quantify the Effects of Piracy*, may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective14-07Final.pdf>.

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