
EC341: Industrial Organisation & Introduction to Competition Policy, 2015

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Course Overview: Industrial organisation is concerned with the use of economic analysis in studying competition between firms and the evolution of market structure. We will focus on understanding the way firms make decisions and the effects of those decisions on market outcomes like prices, quantities, the type of products offered, and social welfare.

Over the past decade, this has been one of the most exciting areas of economics, as a new generation of game-theoretic models have provided us with new ways of analysing a range of practical issues, and addressing some long-standing empirical questions.

Fundamental questions pursued in this course include: Why are markets organized the way they are? How do the ways in which a market is organized affect firms' behaviour? How does the behaviour of firms affect the structure of markets and market outcomes? We will also study predatory pricing, cartel stability, the role of non-price competition, and the evolution of high technology industries.

The goals of the course include development of intuition for pricing and other strategic behaviour by firms, and development of skills for analysis of formal models. Readings and class discussions will provide background and introduction to a variety of topics, many of which will be covered in lecture in greater depth. The theoretical models introduced in the lectures will be supplemented with case studies of specific industries. An introduction to Competition Policy issues will be discussed.

Format: The lectures will be formal in style with presentation using overheads. Classes will be very informal in style, and are designed to provide a forum for active, informed discussion of the case material (this may be journal articles or case studies). The lectures and classes will cover different, but complementary, material, so it will be important that you attend both regularly. To make the class discussions work effectively, it will be very important, and expected, that you read the relevant material beforehand.

Preparation for each meeting: Students are expected to have read the required readings before each lecture. The lectures will move quickly and assume familiarity with the readings.

Problem sets: The aim of problem sets is to help you apply the technical material and to help prepare you for the final exam.

Topics:

- Topic 1: *Introduction to Industrial Economics*
 Review of Perfect Competition, Monopoly and Cost Functions
Reference:
 Church and Ware, p. 7-9, 19-40
 Tirole, p. 6-7, 66-68
- Topic 2: *Monopoly Price Discrimination and Quality Discrimination*
Reference:
 Church and Ware, p. 155-177
 Tirole, p. 133-150, 153-154

 Antitrust Case: Alcoa
 Antitrust Case: Michelin
- Topic 3: *Regulatory economics:*
Reference:
 Church and Ware, p. 745-822
- Topic 4: *Introduction to Game Theory*
 Static Oligopoly Models
 The Cournot Model
 The Bertrand Paradox
 The Cournot Model and Antitrust Policy
Reference:
 Church and Ware: p. 211-227, 231-241, 243-258, 270-272
 Tirole: 209-212, 218-223, 423-428
- Topic 5: *Dynamic Games: Finite horizon*
 Entry in the Cournot Model
 Dynamic Oligopoly Models
Reference:
 Church and Ware: p. 283-298, 329-348
 Tirole: p. 246-251, p. 428-432
- Topic 6: *Differentiated Products Models*
 Horizontal Product Differentiation

Vertical Product Differentiation
Empirical Models of Differentiated Products Demand

Reference:

Church and Ware: p. 379-384, 395-399, 411-413
Tirole: p. 279-284, 296-298

Topic 7: *Entry Deterrence, Limit Pricing, and Strategic Investment*

Reference:

Church and Ware: p. 473-479, 526-538
Tirole, p. 323-328, p. 377-379
Genesove and Mullin
Ghemawat: The Titanium/Dioxide Case

Topic 8: *Market Structure (+class supermarket)*

The Exogenous Sunk Costs Model

The Endogenous Sunk Costs Model

Reference:

Sutton: p.7-12, 27- 37, 45-64
Church and Ware p. 561-567

Topic 9: *Dynamic Games: Infinite horizon*

Collusion

Reference:

Church and Ware: p. 283-298, 329-348
Tirole: p. 246-251, p. 428-432
Christensen and Rabassa: The Airtours Case

Topic 10: *Mergers, Vertical Relations*

Reference:

Church and Ware: p. 684-703, 715-722, 732-738
Tirole, p. 169-186 .
Andrade et al. (2001)
Department of Justice (1997)

Topic 11: *Markets with Asymmetric Information*

Reference:

Church and Ware: p. 191-193, 196-202
Tirole, 108-110, 118-121

Topic 12: *Auctions*

References:

Milgrom (1989)

Readings

You can choose either one of these two textbooks:

- J. Church and R. Ware, Industrial Organization: A Strategic Approach, McGraw Hill, 2000 (Less technical, more empirical illustrations). This book is now available online and can be downloaded for free at <http://homepages.ualgary.ca/~jrchurch/page4/page4.html>
- J. Tirole: Theory of Industrial Organization, MIT Press, 1989 (More technical)

Some examples will be taken from M. Motta, *Competition Policy Theory and Practice*. Cambridge University Press, 2007.

References

Andrade, Gregor, Mitchell, Mark, and Stafford, Erik (2001), "New Evidence and Perspectives on Mergers," *Journal of Economic Perspectives*, 15(3), p. 103-20

Christensen and Rabassa (2001), "The Airtours Case: Is there a new Commission Approach to Collective Dominance?" *The European Competition Law Review*, Issue 6

Department of Justice (1997), Horizontal Merger Guidelines, available online at <http://www.ftc.gov/bc/docs/horizmer.htm>

Deneckere, R. J., and R. P. McAfee (1996), "Damaged Goods," *Journal of Economics and Management Strategy*, 5(2), 149–174.

Genesove, D. and W.P. Mullin (2001), "Rules, Communication and Collusion: Narrative Evidence from the Sugar Institute Case", *American Economic Review*, 91(3): 379-398.

Ghemawat, P, "Capacity Expansion in the Titanium Dioxide Industry," *Journal of Industrial Economics*, Dec. 1984, 145-163

Leslie, P. (2004), "Price Discrimination in Broadway Theatre," *RAND Journal of Economics*, 35(3), 520-41.

Milgrom, P. (1989), "Auctions and Bidding: A Primer," *Journal of Economic Perspectives*, 3(3), 3-22.

Sutton, J. (1991), *Sunk Costs and Market Structure*, MIT Press.

Warren-Bolton, F. (1984). "Resale Price Maintenance Re-examined: Monsanto v. Spray-Rite", Chapter 15 in J Kwoka and L White, editors, *The Antitrust Revolution: Economics, Competition and Policy*, 364-385