

# ECO 310Y INDUSTRIAL ORGANIZATION AND PUBLIC POLICY

UNIVERSITY OF TORONTO  
DEPARTMENT OF ECONOMICS  
SUMMER 2011

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Lecture: Tuesday and Thursdays, 11:00am - 1:00pm. ES B142  
Tutorials: Tuesday and Thursdays, 1:00 - 2:00pm. ES B142  
Office Hours: Tuesday and Thursdays, 1:00 - 3:00pm

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## COURSE DESCRIPTION

Industrial Organization (IO) is the field of economics that is concerned with the structure of markets and the behavior of firms in these markets. This course will study the goals, strategies and decision making processes of large firms in imperfectly competitive markets, as well as the resulting economic outcomes. Particular emphasis is placed on the interdependence in the decisions of firms operating in a market. We will look at how real-world markets work, how firms compete or collude with each other, and how these interactions determine market structure, firms' performance, and social welfare. The role of Antitrust policy is discussed throughout the course. The first three-quarters of the course stress a basic understanding of IO theory, including extensions and modern developments. The last quarter of the course will provide an introduction to the field of New Empirical IO.

Prerequisites: ECO200Y1/ECO204Y1/ECO206Y1. ECO220Y1/ECO227Y1 or equivalents.

*Note: It is the student's responsibility to ensure they have met the prerequisites for this course.*

## MEETINGS

We will be meeting twice each week, with two hours of lectures scheduled for each meeting: Tuesdays and Thursdays from 11:00am - 1:00pm. Lectures will be held at ES B142.

Periodically, there will be a one-hour tutorial session following lecture, from 1:00 - 2:00pm, held in the same location as lecture. Tutorials are lead by the TA, and will be used to go over examples from lecture and for review sessions. Tutorial material will be posted on the course website as we proceed.

## EVALUATION

There are two main components to the graded course work: 3 term tests (60% of final mark), and a final exam (40% of final mark).

Each (non-cumulative) term test is worth 20% of the course grade. Tests are 90 minutes in duration, and will take place during regularly scheduled lecture-time, but not in the same room as lecture, on the following dates:

Test #1: Thursday June 9. Location TBA

Test #2: Thursday June 30. Location TBA

Test #3: Tuesday July 26. Location TBA

The final exam is cumulative, and worth 40% of the course grade. The exam will be offered during the August examination period at the end of the summer, and will be scheduled by the Faculty of Arts & Science.

Note: If a student is ill for a midterm examination, the student must provide me with a copy of a University of Toronto Medical Certificate. Once the appropriate documentation is submitted, the student will have the weight of the missed test deferred to the final exam. Students will be granted accomodation for at most one missed term test. Students who miss two or more tests will receive a grade of zero, and will be advised to drop the course on medical grounds.

## COURSE MATERIAL

The required textbooks for this course are:

- Main: Pepall L., D. Richards and G. Norman (2011). *Contemporary Industrial Organization: A Quantitative Approach*. John Wiley & Sons.
- Supplemental: Church, J. and R. Ware (2000). *Industrial Organization: A Strategic Approach*. Irwin, McGraw-Hill. Freely available on-line: <http://homepages.ucalgary.ca/~jrchurch/page4/page4.html>

In addition, for the empirical part of the course, we will cover selected scholarly journal articles. These can be downloaded from the web, using the library's electronic journal collection. (\*\*\*) indicates a required reading).

- Akerberg. A., C.L. Benkard, S. Berry and A. Pakes (2006). "Econometric Tools for Analyzing Market Outcomes," in *Handbook of Econometrics Volume 6*, eds J. Heckman and E. Leamer, Elsevier. pp 4171-4276.
- Berry, S. and P. Reiss (2007). "Empirical Models of Entry and Market Structure," in *Handbook of Industrial Organization Volume 3*, eds M. Armstrong and R. Porter, Elsevier. pp 1845-1886.
- \*\*\*Bresnahan, T. (1982). "The Oligopoly Solution Concept is Identified," *Economics Letters*, vol 10. pp 87-92.
- \*\*\*Bresnahan, T. and P. Reiss (1991). "Entry and Competition in Concentrated Markets," *Journal of Political Economy*, vol 99. pp 977-1009.
- Bresnahan, T., and P. Reiss (1991). "Empirical Models of Discrete Games," *Journal of Econometrics*, vol 48. pp 57-81.
- Lau, L. (1982). "On identifying the degree of competitiveness from industry price and output data," *Economics Letters*, vol 10. pp 93-99.
- \*\*\*Reiss. P. and F. Wolak (2008). "Structural Econometric Modeling: Rationales and Examples from Industrial Organization," in *Handbook of Econometrics Volume 6*, eds J. Heckman and E. Leamer, Elsevier. pp 4277-4415.

## WEBSITE

The course web-site is accessible through:

**<http://dimitrid.webs.com/eco310.htm>**

I will use the course web-site as a means of communication with the class, so I recommend you check the announcements regularly. In addition, I will periodically post the lecture slides online. Some of the on-line material will be password protected; I will announce the course password during the first lecture.

## E – MAIL POLICY

Use e-mails for appointments, administrative matters or urgent issues. Questions about the course, lectures and tutorial material, etc., are more appropriate for office hours. I will normally reply to e-mails within 24 hours. You must use your UofT e-mail address, and include the course number "ECO 310" in the subject line, otherwise your e-mail may be automatically quarantined as "junk e-mail".

## ACADEMIC CONDUCT

It is the responsibility of the students to know and understand the provisions of the University of Toronto's Code of Behaviour on Academic Matters. (<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>). All cases of suspected academic misconduct will be referred to the Dean's office.

## LECTURE SCHEDULE

The following is a tentative schedule of lecture topics, with applicable references listed below. Note: Course requirements are subject to change. In any case, I will inform students of changes during class time and on the course website. It is the responsibility of the student to be aware of any changes.

• Lecture 0. T-May-17	Introduction to the Course	PRN Chp.1
• Lecture 1. T-May-17	Review of Demand	PRN Chp.2
• Lecture 2. R-May-19	Theory of the Firm	PRN Chp.3
• Lecture 3. T-May-24	The Perfect Competition Benchmark	PRN Chp.2
• Lecture 4. R-May-26	Monopoly: Basic Theory	PRN Chp.2
• Lecture 5. T-May-31	Monopoly: Price Discrimination (I)	PRN Chp.5
• Lecture 6. R-Jun-2	Monopoly: Price Discrimination (II)	PRN Chp.5
• Lecture 7. T-Jun-7	Monopoly: Product Selection	PRN Chp.6
• <b>Thursday June 9</b>	<b>Term Test #1 - Covers Lectures 1 to 6</b>	<b>Location TBA</b>
• Lecture 8. R-Jun-9	Monopoly: Advertising (following TT1)	PRN Chp.14
• Lecture 9. T-Jun-14	Game Theory (I)	PRN Chp.7
• Lecture 10. R-Jun-16	Oligopoly: Cournot Quantity Competition	PRN Chp.7
• Lecture 11. T-Jun-21	Oligopoly: Bertrand Price Competition	PRN Chp.7
• Lecture 12. R-Jun-23	Oligopoly: Competition with Differentiated Products	PRN Chp.7
• Lecture 13. T-Jun-28	Game Theory (II)	PRN Chp.8 & 10
• <b>Thursday June 30</b>	<b>Term Test #2 - Covers Lectures 7 to 12</b>	<b>Location TBA</b>
• Lecture 14. T-Jul-5	Dynamic Oligopoly: Collusion	PRN Chp.10
• Lecture 15. R-Jul-7	Dynamic Oligopoly: Stackleberg Competition	PRN Chp.8
• Lecture 16. T-Jul-12	Dynamic Oligopoly: Entry Deterrence	PRN Chp.9
• Lecture 17. R-Jul-14	Dynamic Oligopoly: Strategic Investment	PRN Chp.9 & 18
• Lecture 18. T-Jul-19	Vertical Contractual Relations	PRN Chp.13
• Lecture 19. R-Jul-21	Structure-Conduct-Performance	PRN Chp.4
• <b>Tuesday July 26</b>	<b>Term Test #3 - Covers Lectures 13 to 18</b>	<b>Location TBA</b>
• Lecture 20. R-Jul-28	Econometrics Review & Intro to Empirical IO	Reiss and Wolak (2008)
• Lecture 21. T-Aug-2	Estimating Demand, Supply and Market Power (I)	Bresnahan (1982)
• Lecture 22. R-Aug-4	Estimating Demand, Supply and Market Power (II)	Bresnahan (1982)
• Lecture 23. T-Aug-9	Estimating Static Games of Market Entry (I)	Bresnahan & Reiss (1991)
• Lecture 24. R-Aug-11	Estimating Static Games of Market Entry (II)	Bresnahan & Reiss (1991)

## TUTORIAL SCHEDULE

The following is a tentative schedule of tutorial dates. Tutorial materials will be posted on the website as we proceed through the course.

- Tutorial 1. R-Jun-2      Review for Term Test 1
- Tutorial 2. T-Jun-7      Review for Term Test 1
  
- Tutorial 3. R-Jun-23      Review for Term Test 2
- Tutorial 4. T-Jun-28      Review for Term Test 2
  
- Tutorial 5. T-Jul-19      Review for Term Test 3
- Tutorial 6. R-Jul-21      Review for Term Test 3
  
- Tutorial 7. T-Aug-9      Review for Final Exam
- Tutorial 8. R-Aug-11      Review for Final Exam