

ECO 310H EMPIRICAL INDUSTRIAL ORGANIZATION

UNIVERSITY OF TORONTO
DEPARTMENT OF ECONOMICS
FALL 2014

Course Instructor: Dimitri Dimitropoulos E-Mail: d.dimitropoulos@utoronto.ca
Office: GE 38, 150 St. George St. Web: <http://dimitrid.webs.com>

Lectures: Wednesdays, 11:00am - 1:00pm. SS 2110
Tutorials: Thursdays, 11:00am - 12:00pm. SS 2110
Office Hours: Wednesdays, 1:10 - 3:00pm. GE 40.

COURSE DESCRIPTION

Industrial Organization 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 specification and estimation of models of consumer and firm behavior in oligopoly industries. We will see how these models can be used to understand and quantify firms' market power and its sources, the determinants of market structure, or the implications of exogenous technological and institutional factors on consumer and social welfare in a particular industry. We will examine in detail recent empirical studies that have applied these models and techniques in the context of specific industries. The course emphasizes the importance of combining economic theory and econometric techniques to answer empirical questions in Industrial Organization. Students will gain practical experience working with economic data, and making use of the STATA Data Analysis and Statistical Software package.

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.*

Recommended Courses: ECO380H1F: Markets, Competition, and Strategy. This course, taught by Yao Luo in the Fall Semester, covers the theory of Industrial Organization.

MEETINGS

Lectures will be held on Wednesdays, from 11:00am - 1:00pm, in SS 2110. Lectures will consist of lecture slide presentations with participation opportunities. You may visit the course website, print out the lecture slides, and bring them to class. Note: lecture slides are not a substitute for lecture notes.

Periodically, there will be a one-hour tutorial session on Thursdays, from 11:00am - 12:00pm, also held in SS 2110. Tutorials will be used to go over examples from lecture, and for instruction of the use of STATA. Tutorial dates and materials will be posted on the course website as we proceed.

EVALUATION

There are three components to your grade: problem sets (30%), a midterm test (35%), and a final exam (35%).

There will be two problem sets, each worth 15%. Both problem sets will make use of the STATA Data Analysis and Statistical Software package. Problem Set #1 will be handed out on Wednesday, October 1, and will be due by Wednesday, October 15. Problem Set #2 will be handed out on Wednesday, November 12, and will be due by Wednesday, November 26. Late assignments will not be accepted.

The midterm test is worth 35% of the course grade, and will take place on Wednesday, October 22. The test will be 100 minutes in duration, and will take place during regularly scheduled lecture-time, but not in the same room as lecture. If you miss the midterm test due to illness or injury, you must send me an email from your UofT email account within 24 hours of the missed test, concisely explaining why you missed the test. You must then provide me with a University of Toronto Verification of Student Illness or Injury form at the earliest possibility. Once the appropriate documentation is submitted and verified, you will have to write a make-up test within one week of the missed test, at a time and date chosen by the instructor, and with as little as one day's notice.

The final exam is cumulative, and worth 35% of the course grade. The exam will be offered during the December examination period at the end of the semester, and will be scheduled by the Faculty of Arts & Science.

COURSE MATERIAL

There is no text book. The course is organized around three recent surveys on Empirical IO and Structural Econometrics (see Main References below). These surveys are key references for this course. The course is also based on published and working academic papers.

However, you are required to have access to the STATA software package. You can get the student version inexpensively from the software licensing office in Robarts library: <http://www.utoronto.ca/ic/software/detail/stata.html>. The six month license of Small STATA is sufficient for this course.

In addition, a useful supplemental econometrics reference is: Jeffrey M. Wooldridge (2008). *Introductory Econometrics: A Modern Approach, 4th Edition*. South-Western College Publishers. Although it is not required, this textbook is available for purchase at the U of T Bookstore, and has also been put on the U of T Library course reserves.

MAIN REFERENCES

- [ABBP] Akerberg, D., Benkard, L., Berry, S., & Pakes, A. (2007). "Econometric Tools for Analyzing Market Outcomes," in Handbook of Econometrics, Volume 6, pp. 4171-4276. Available on the authors' website at <http://www.stanford.edu/~lanierb/research/tools8l-6-8.pdf>
- [BR] Berry, S., & Reiss, P. (2007). "Empirical Models of Entry and Market Structure," in Handbook of Industrial Organization, Volume 3, pp. 1845-1886. Available on the authors' website at <http://www.stanford.edu/~preiss/hand-entry.pdf>
- [RW] Reiss, P., and Wolak, F. (2007). "Structural Econometric Modeling: Rationales and Examples from Industrial Organization," in Handbook of Econometrics, Volume 6, pp. 4277-4415. Available on the authors' website at <http://www.stanford.edu/~preiss/makeit.pdf>

WEBSITE

The course web-site is accessible through <http://dimitrid.webs.com/eco310.htm>, as well as through the University of Toronto Learning Portal. 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 Behavior on Academic Matters. All cases of suspected academic misconduct will be referred to the Dean's office.

LIST OF TOPICS

1. Introduction to the Course. Review of Econometrics (1 week).
2. Estimation of Demand, Supply, and Market Power (3 weeks).
3. Estimation of Demand for Differentiated Products (3 weeks).
4. Estimation of Production and Cost Functions (2.5 weeks).
5. Estimation of Static Games of Oligopoly Competition (2.5 weeks).

REFERENCES

1. Introduction to the Course. Review of Econometrics
 - RW Sections 1 to 5.
 - Church, J., and Ware, R. (2000). "Chapter 12: Identifying and Measuring Market Power," in *Industrial Organization: A Strategic Approach*.
 - Epple, D., and McCallum, B. (2006). "Simultaneous Equation Econometrics: The Missing Example." *Economic Inquiry*, Vol. 44(2), pp. 374-384.

2. Estimation of Demand, Supply, and Market Power
 - RW Section 6
 - Bresnahan, T. (1982). "The Oligopoly Solution Concept is Identified," *Economics Letters*, Vol. 10, pp. 87-92.
 - Genesove, D., and Mullin, W. (1998). "Testing static oligopoly models: Conduct and Cost in the Sugar Industry," *RAND Journal of Economics*, Vol. 29(2), pp. 355-377.

3. Estimation of Demand for Differentiated Products
 - RW Section 7.
 - ABBP Section 1.
 - Berry, S. (1994). "Estimating Discrete-Choice Models of Product Differentiation," *RAND Journal of Economics*, 25(2), 242-262.
 - Berry, S., Levinsohn, J., and Pakes A. (1995). "Automobile Prices in Market Equilibrium," *Econometrica*, 63(4), 841-890.
 - Deaton, A., and Muellbauer J. (1980). "An Almost Ideal Demand System," *American Economic Review*, Vol. 70(3), pp. 312-326
 - Hausman, J., and Leonard, G.K. (2002). "The Competitive Effects of a New Product Introduction: A Case Study," *Journal of Industrial Economics*, Vol. 50(3), pp. 237-263.

4. Estimation of Production Functions
 - ABBP Section 2.
 - Olley, G., and Pakes, A. (1996). "The Dynamics of Productivity in the Telecommunications Equipment Industry". *Econometrica* 64 (6), 1263–1298.

5. Estimation of Static Games of Oligopoly Competition
 - BR All sections.
 - RW Section 10
 - Bresnahan, T., and Reiss, P. (1990): "Entry in monopoly markets", *Review of Economic Studies*, 57, 531-553.
 - Bresnahan, T., and Reiss, P. (1991): "Entry and Competition in Concentrated Markets," *Journal of Political Economy*, 99, 977-1009.
 - Yang, N. (2012). Burger King and McDonald's: Where's the Spillover?. *International Journal of the Economics of Business*, 19(2), 255-281.