

University of Toronto
Department of Economics

ECO380H1S, section L0101 -- Markets, Competition, and Strategy

Tuesday, Thursday 10-1 BL 205
Starting from Thursday July 4, 2019

Instructor: Li Li

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Objectives

This course explains the functioning of markets from an economic perspective. In particular, we would study how firms would optimally react to the actions of other competing firms. Such considerations are generally known as strategic behaviors. To formalize this notion, this course would employ some tools in microeconomics, game theory in particular. This consideration allows us to move beyond the perfectly competitive model where each firm faces a given market price without interacting with each other. Using these theoretical tools, we will study the market under imperfect competition.

Prerequisite: ECO200Y1/ECO204Y1/ECO206Y1; ECO220Y1/ECO227Y1/
(STA220H1,STA255H1)/(STA257H1,STA261H1)

The Department of Economics would verify if students have the course prerequisites. It is beyond the instructor's power to waive prerequisites.

Grading

There will be 6 problem sets and a final exam. Each problem set counts for 7%. The final exam counts for 58%.

Students can choose to collaborate on the problem sets. The maximal group size is 3 students. Your homework would preferably be typed. If you prefer to write by hand, please write legibly. Make sure to write down your name and student number in your problem sets. I will announce the deadlines of the problem sets 1 week in advance. You will submit the problem sets (printed) **during the class. Late homework will not be accepted.**

Students who fail to submit problem sets on time for medical reasons may seek special consideration by **emailing the instructor AND submitting an acceptable medical note within a week after the due date.** Petitions based on travel, employment or personal plans will not be considered.

If the instructor accepts students' medical notes to waive a problem set, the corresponding grades will be allocated to the other problem sets.

Students who miss the final exam for reasonable reasons may initiate petitions to the Faculty of the Art and Science. It is up to the Faculty to make decisions.

The only acceptable medical note is a fully completed **University of Toronto Verification of Student Illness or Injury form.** It must be original. The doctor's OHIP registration number must be provided on the note. The date on the medical note must correspond exactly the problem set deadline/mid-term date within a reasonable margin of error.

Textbooks

The main textbooks for this course are:

- [PRN, required] Pepall, L., Richards, D. J., & Norman, G. (2014, 5th Edition). Industrial Organization: Contemporary Theory and Empirical Applications.
- McAfee, R. P. (2009). Competitive solutions: the strategist's toolkit. Princeton University Press.
- Brandenburger, A. M., & Nalebuff, B. J. (2011). Co-opetition.

Although the lectures will generally follow PRN, they will depart frequently. Please focus on the lecture slides. Additional readings may be assigned during the course of the class.

Academic Misconduct

No form of academic misconduct would be tolerated. We will follow strictly the relevant rules and penalties as stated in the academic handbook.

Email policy

Students should try to directly contact me during the office hours. Only if this is infeasible, you should email me. The email should not require me to respond more than 3 sentences. Otherwise I may not respond.

Regarding the problem sets, please email the TAs directly. They will have the final judgment. Note: The first three problem sets will be marked by Cheok In Fok. The 4-6th problem sets will be marked by Dhruv Sinha.

Test score appeals

Please write a short paragraph explaining why you should obtain additional points. If I find that the argument is persuasive, the exam will be re-graded. Your score can go up or down.

Course Outline

1. Introduction
2. Monopoly and Perfect Competition (PRN Ch.2)
3. Game Theory and Competitive Strategy (PRN Ch. 9)
4. Cournot and Bertrand Competition (PRN Ch. 9 and 10)
5. Stackelberg Competition (PRN Ch. 11)
6. Collusion and Repeated Games (PRN Ch. 14)
7. Pricing (PRN Ch. 5, 6, 7 and 8)
8. Entry, Exit and Predation (PRN Ch. 12 and 13)
9. Non-Price Competition: Advertising and R&D (PRN Ch. 19, 20 and 21)
10. Auctions (PRN Ch. 23)