

**ECONOMICS 2908: INDUSTRIAL ORGANIZATION and
COMPETITION POLICY**

(Fall Semester: Thursday's 2:10 pm Online)

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Username: eco2908; password: mat2908
- Office Hours:** By Appointment
- Evaluation:** There will be a final exam (date to be determined) that will determine your grade in the course. Previous exams are posted on the course web site. Some problem sets will be distributed during the semester.
- Other courses:** **Bus Econ/IO Workshop:** students interested in research in Industrial Organization are encouraged to attend the workshop that meets online on Monday's from 4:10 to 5:30 pm. Check seminar schedule for dates, speakers and papers.
- Course Content:** The field of industrial organization is applied microeconomics/price theory concerned with the function of markets and the behavior of firms in these markets. Here the focus is on two primary questions:
(i) How do we explain observed behavior, prices or contractual practices by firms operating in markets that are not perfectly competitive? (ii) What is the role of government intervention in affecting market structure, the behavior of firms, and the efficient operation of markets? Recent developments in IO are both theoretical and empirical. This IO course stresses a basic understanding of the theory, including extensions and modern developments and applications of the theory.
- Text:** The Theory of Industrial Organization, by Jean Tirole, MIT Press, 1988 (**Tirole**) is the text for the course. Additional readings are suggested.
- Supplementary Texts:**
Armstrong, M. and R.H. Porter (eds) Handbook in Industrial Organization Volume 3, North Holland, 2007 (**Handbook 3**).
Belleflamme, Paul and Martin Peitz, Industrial Organization: Markets and Strategies, Cambridge University Press, 2015. (**BP**)
Cabral, Luis, Introduction to Industrial Organization, The MIT Press, 2002 (**LC**)
Cabral, Luis (ed), Readings in Industrial Organization, Blackwell Publishers, 2000 (**LCR**)

- Carleton, D. and J. Perloff, Modern Industrial Organization, Scott-Foresman-Little-Brown, 4th Edition, 2005 (CP).
- Church, J. and R. Ware, Industrial Organization: a Strategic Approach, Richard D. Irwin, 1998 (CW).
- Motta, Massimo, Competition Policy: Theory and Practice, Cambridge University Press, 2004 (MM)
- Salanié, Bernard, Microeconomics of Market Failure, MIT Press, 2000 (SA)
- Scherer, F.M. and D. Ross, Industrial Market Structure and Economic Performance, 3rd Edition, Houghton-Mifflin Co., Boston, 1990 (SR).
- Schmalensee, R. and R. Willig (eds.) Handbook in Industrial Organization Volumes 1 and 2, North Holland, 1989 (**Handbook 1-2**).
- Stigler, G. The Organization of Industry, U. Chicago Press, 1968 (S)
- Whinston, M.D. Lectures on Antitrust Economics, MIT press, 2008 (W)

Journal Abbreviations:

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|---------|--|
| AER | - American Economic Review |
| AEJ:M | - American Economic Journal: Microeconomics |
| ALJ | - Antitrust Law Journal |
| BJE | - Bell Journal of Economics |
| CJE | - Canadian Journal of Economics |
| Ec | - Economica |
| EER | - European Economic Review |
| EI | - Economic Inquiry |
| EJ | - Economic Journal |
| EM | - Econometrica |
| IJIO | - International Journal of Industrial Organization |
| JB | - Journal of Business |
| JEMS | - Journal of Economics and Management Strategy |
| JEP | - Journal of Economic Perspectives |
| JET | - Journal of Economic Theory |
| JIE | - Journal of Industrial Economics |
| JLaE | - Journal of Labor Economics |
| JLE | - Journal of Law and Economics |
| JLEO | - Journal of Law, Economics and Organization |
| JPE | - Journal of Political Economy |
| J Pub E | - Journal of Public Economics |
| NBER | - National Bureau of Economic Research |
| QJE | - Quarterly Journal of Economics |
| RES | - Review of Economic Studies |
| RIO | - Review of Industrial Organization |
| RJE | - Rand Journal of Economics. |

I. INTRODUCTION TO INDUSTRIAL ORGANIZATION: THE QUESTIONS

Tirole: pps 1 – 15 and Ch. 5, pps 209 – 212.

BP: Ch. 1

SR: Chapter 1.

Weyl, E. G. “Price Theory” Journal of Economic Literature 2019, 57(2): 319 – 384.

II THEORY OF THE FIRM

Tirole: 15-60.

BP: Ch. 2

Mathewson, F., J Murdoch and G. Wall, “Music Tariffs: Options, Regulation and Bargaining” Review of Economic Research in Copyright Issues 2019, 16(1): 40-67.

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Hart, O. “Incomplete Contracts and the Theory of the Firm,” JLEO 1988, 4:119 - 139.

Hermalin, B.E. and M.L. Katz “Information and the Hold-up Problem,” RJE Autumn 2009, 40(3): 405 – 423.

Horstmann, I., F. Mathewson and N. Quigley “Sales Contracts with Long-Term Customer Relationships,” JLE July 2005, 23(3): 589 – 608.

Coase, R. “The Nature of the Firm,” Ec New Series, November 1937, 4, No.16: 386 – 405.

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- Milgrom, P. and J. Roberts Economics, Organization and Management, chs. 2 and 7.
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- Mukherjee, A. and L Vasconcelos “Optima; Job Design in the Presence of Implicit Contracts,” RJE Spring 2011, 41(1): 44 – 69.
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- Hermalin, B. and M Katz “Information and the Hold-Up Problem,” RJE 2009 40(3): 405 – 423.
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- Stole, L. and J. Zweibel “Organizational Design and Technology Choice Under Intrafirm Bargaining,” AER March 1996, 86(1): 195 – 222.
- Whinston, M. “On the Transaction Cost Determinants of Vertical Integration,” JLEO, April 2003, 19(1): 1 – 23.
- Prendergast, C. “The Tenuous Trade-off between Risk and Incentives,” JPE October 2002, 110 (5): 1071 – 1102.
- Prendergast, C. “The Economics of Wild Goose Chases,” RJE Spring 2015, 46(1): 146 – 164.
- Bester, H. and D. Krahmer “The Optimal Allocation of Decision and Exit Rights in Organizations,” RJE Summer 2017, 48(2): 309 – 334.

Applications

- Joskow, P. “Contract Duration and Relationship-Specific Investments,” AER 1987, 77: 168 – 185.
- Mathewson, F. and R. Winter “Territorial Restrictions in Franchise Contracts,” EI April 1994, 32(2): 181 – 192.
- Jensen, M. and K. Murphy “Performance Pay and Top-Management Incentives,” JPE 1990, 98: 225 – 264.
- Crocker, K. and S. Masten “Mitigating Contractual Hazards: Unilateral Options and Contract and Contract Length,” RJE 19, Autumn 1984: 327 – 343.

III. THE THEORY OF MONOPOLY

Tirole: Ch. 1, pp. 65 – 72; 73 – 78.

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A. Durable Goods Monopoly

Tirole: Ch. 1: 72 – 73, 79 – 87.

BP: Ch 10

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Pesendorfer, W. “Design Innovation and Fashion Cycles,” AER September 1995 85(4): 771 – 792.

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Fudenberg, D. and J. Tirole “Upgrades, Tradeins, and Buybacks,” RJE Summer 1998 29(2): 235-258.

Deneckere, R. and A. de Palma “The Diffusion of Consumer Durables in a Vertically Differentiated Oligopoly,” RJE Winter 1998, 29 (4): 750 – 771.

Hendel, I. and A. Lizzeeri “Interfering with Secondary Markets,” RJE, 30 (1), Spring 1999: 1 – 21.

Denerkere, R. and M.-Y. Liang “Imperfect Durability and the Coase Conjecture,” RJE Spring 2008 39(1): 1 – 19.

House, C.L. and E. Ozdenoren “Durable Goods and Conformity,” RJE Summer 2008 39(2): 452 – 468.

B. Production Selection, Quality and Advertising

Tirole: Ch. 2

BP: Chs. 12 and 13

Akerlof, G. “The Market for Lemons: Quality Uncertainty and the Market Mechanism,” QJE 1970, 84: 488-500.

Levin, J. “Information and the Market for Lemons,” RJE 32(4), Winter 2001: 657-666.

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- Emons, W. “Credence Goods and Fraudulent Experts,” RJE Spring 1997 28 (1): 107-119.
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C. **Price Discrimination**

Tirole: Ch. 3: 133 -165.

BP: Ch. 8

SR: Ch. 12, 13

Varian, H. “Price Discrimination,” Ch.10, **Handbook 1-2**.

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Holmes, T.J. “The Effects of Third-Degree Price Discrimination in Oligopoly,” AER 1989 79(1): 244 – 250.

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D. Vertical Integration and Foreclosure

Tirole: Ch. 4.

BP: Ch. 17

SR: Ch. 1

W: Ch. 4

Katz, M. “Vertical Contractual Relationships,” Ch. 11, **Handbook 1-2**.

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Perry, M. “Vertical Integration: Determinants and Effects,” Ch.4, **Handbook 1-2**.

Riordan, M. “What is Vertical Integration?” in M. Aoki, B. Gufstafson, and O. Williamson (eds.) The Firm as a Nexus of Treaties, London: Sage, 1990.

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Rey, P. and J. Stiglitz “The Role of Exclusive Territories in Producers' Competition,” RJE Autumn 1995, 26 (3): 431 - 451.

Weiss, A. “Vertical Mergers and Firm-Specific Physical Capital: Three Case Studies and Some Evidence on Timing,” JIE 42, 1994: 395 – 418.

- Kaufman, P. and F. Lafontaine “Costs of Control: The Source of Economic Rents for McDonald’s Franchisees” JLE 1994 37(2): 417 – 454.
- Kühn, K.-U. and X. Vives “Excess Entry, Vertical Integration and Welfare,” RJE Winter 1999, 30(4): 575 – 603.
- Shy, O. and Z Wang “Why Do Payment Card Networks Charge Proportional Fees,” AER June 2011, 101(4): 1575 – 1590.
- Arya, A. and B. Mittendorf “Disclosure Standards for Vertical Contracts,” RJE Fall, 2011, 42(3): 595 – 617.
- Moresi, S. and S. Salop “vGUPPI: Scoring Unilateral Pricing Incentives in Vertical Mergers,” available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2085999

E. Exclusive Dealing Contracts and Foreclosure

BP: Ch. 17.3

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- Mathewson, F. and R. Winter “Is Exclusive Dealing Anti-Competitive? A Comment,” AER Dec. 1987, 77: 1057 – 1062.
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- Bernheim, B.D. and M.D. Whinston “Exclusive Dealing,” JPE 1998 106(1): 64 – 103.

F. Other Vertical Contracts

(I) *Resale Price Maintenance and Exclusive Territories*

BP: Ch. 17.1, 17.2

Telser, L. "Why Should Manufacturers Want Fair Trade?" JLE Oct. 1960, 3: 86 - 105.

Mathewson, F., and R. Winter "The Law and Economics of Resale Price Maintenance," RIO 13 (Nos 1-2), April 1998: 57 - 84.

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Bonnet, C. and P Dubois "Inference on Vertical Contracts between Manufacturers and Retailers Allowing for Nonlinear Pricing and Resale Price Maintenance," RJE Spring 2010 41(1): 139 - 164.

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(II) Tying and Bundling

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(III) Refusals to Supply

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(IV) Loyalty Programs

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(V) Other

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IV. THEORIES OF OLIGOPOLISTIC MARKETS

A. Oligopoly

(I) Theory

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BP: Chs. 3, 4.

Armstrong, M. and J. Vickers. “Multiproduct Pricing made Simple,” JPE208 126(4): 1444 – 1471.

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Rocher, J.-C and J Tirole, “Two Sided Markets: A Progress Report,” RJE Autumn 2006 37(3): 645 – 667,

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(II) Collusion

Tirole: Ch. 6

BP: Ch. 14

W: Ch. 2

Jacquemin, A. and M. Slade "Cartels, Collusion, and Horizontal Mergers," Ch 7 in the **Handbook 1-2.**

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(III) Empirical Studies of Collusive Behavior

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B. Product Differentiation

(I) Theory

Tirole: Chs. 2, 7.

BP: Ch. 5

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BP: Ch. 6, 7

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