ECON4313-001   Industrial Organization

University of Oklahoma, Fall 2018
T/R, 1:30-2:45pm, Cate Center CCD1 174

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Course Description

Industrial organization studies the functioning of markets, focusing on imperfectly competitive markets. We will study the causes and consequences of firms' strategic behavior in such markets, as well as the role of public policies. Our main analytical tools will be microeconomics and game theory. We will complement our theoretical work with empirical evidence from academic research and the popular press, and analyze how the industrial organization theories work in action.

The topics we will study include: pricing strategies (price discrimination, nonlinear pricing, bundling and tie-in sales); product strategies (product variety, quality, advertising, R&D); collusion and cartels, horizontal and vertical mergers. Within each topic we will consider the impact of firms' actions on consumer welfare. We will also consider the role of public policies, particularly the US antitrust laws which try to create a balance between the benefits of coordination and consolidation and the detriments of market power. We will discuss various actual antitrust cases relating to the topics we cover, with a few classes devoted to selected cases.

Prerequisite: ECON1113, ECON1123 with a grade of C or better.

Assessment

Your grade will be based on in-class debates (20%), one midterm (25%), one final (25%) and presentation of a project studying competition and market performance in a particular industry (30%). Letter grades will be assigned following the schedule (A: 90 and above; B: $80 \sim 90$; C: $70 \sim 80$; D: $60 \sim 70$; F: < 60).

Midterm will be given during class time and the final will be given at the University designated time. More details about case discussion and project presentation will be laid out later. Problem sets will be assigned on a regular basis. They will not be collected but I strongly recommend that you work on the problem sets. Similar skills are required to answer the exams as to answer the problems sets.

Textbooks

Recommended: (1) *Industrial Organization: Contemporary Theory and Practice* by Lynne Pepall, Dan Richards, and George Norman, 4th Edition, Blackwell Publishing.

(2) *Antitrust Revolution* by John E. Kwoka, Jr. and Lawrence White, 5th Edition, Oxford University Press.

Readings

The course outline at the end of the syllabus lists the sections in the textbook which we will cover. The textbook provides important background information and motivation for the topics we will cover, and includes numerous real world examples and applications. I expect you to read the assigned chapter **before** coming to class to get an overview of what's contained in the chapter. My previous experience indicates that it is very beneficial if you have read the chapter before class. After you have done that, look at the problems at the end of each chapter and the corresponding homework assignment. If you find yourself struggling with some problems, make a note for that so you can pay special attention to the relevant material in class. I strongly encourage you to ask questions and participate in class discussions.

Additional readings will be listed throughout the semester. In particular, for each chapter, I have assembled a set of *Wall Street Journal* articles as well as questions usually based on 1-2 of these articles. It is important that you learn and practice how to apply the tools and knowledge that you learned in class to these real world problems and applications. Similar skills are required in the tests.

Exam Dates

Midterm - Thursday, October 11
Final - Wednesday, December 12, 1:30 -2:45pm*

Other Important Dates

August 21 is the first day of class

October 26 is the last day for Automatic Grade of W for Dropped Course(s)

December 6 is the last day of class

Canvas

I will use Canvas, in conjunction with e-mails, to distribute lecture outlines, readings, problem sets, etc. I will also post grades on Canvas. Please verify that you can log on to Canvas and access the information for this class.

Class Attendance

You are expected to attend every class and are responsible for all material and announcements. The exams will be based largely on class discussions, so it is in your best interest to attend. As an added incentive, I will periodically take attendance and assign up to 2 bonus points. It is your responsibility to inform me in a timely manner of any extended absence that is necessary for medical or other reasons. Please arrive to class on time. Entering after a lecture has begun is distracting to your classmates and to me, and you should avoid it as a courtesy. If you arrive late, please enter the room quietly and sit near the door. In order to avoid unnecessary distractions, all cellular telephones are required to be turned off while in the classroom. This includes the time immediately before and after the class ends.

Tentative Outline

PRN=Pepall, Richards and Norman. You are not responsible for sections of PRN which we do not discuss in class. Approximate number of lectures to cover each chapter is listed in parenthesis.

1. Introduction. PRN 1 (1).

2. Review of perfect competition and monopoly. PRN 2.1, 2.3.1 (2).

3. Market structure and market power. PRN 3.1-3.2 (1.5).

    Case #1: Staples - Office Depot

4. Monopoly product and pricing strategies (4).
  (i) Price discrimination: Incentive, type and feasibility. PRN 5.1.
  (ii) Third-degree price discrimination. PRN 5.2, 5.3 and 5.5.
  (iii) First-degree price discrimination. PRN 6.1, 6.3.
  (iv) Second-degree price discrimination. PRN 6.2, 6.3.
  (v) Bundling and tie-in sales. PRN 8.1, 8.2 and 8.4.

Case #2: LePage's v. 3M

5. Game theory: Basic concepts. PRN 9.1-9.3 (1).

6. Oligopoly markets (3.5).
   (i) Cournot competition. PRN 9.4-9.5, 10.4.
   (ii) Bertrand competition. PRN 10.1, 10.2, 10.4.

   Midterm exam approximately here.

7. Dynamic games and competition (3).
   (i) The Stackelberg competition. PRN 11.1.
   (ii) Sequential price competition. PRN 11.2.
   (iii) Credibility of threats and subgame perfect Nash equilibrium. PRN 11.3.

8. Price-fixing, repeated games, and collusion. PRN 14.1, 14.2 and 15.2 (2).

   Case #3: Ohio v. Trauth

9. Horizontal mergers. PRN 16.1, 16.4.1 and 16.5 (2).

10. Vertical relationships. PRN 17.1-17.2. (2).

    Case #4: Toys R Us

    Final exam.