

COMPETITION AND REGULATION 2012-21935/21233 UPF

Language of Instruction: English

Course Meeting times and place: Mondays and Tuesdays 18.30-20.00, Room 40-146, Campus Ciutadella.

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Contact Hours: by appointment

Course Description and References

The course will have two parts: 1) Regulation, and 2) Competition Policy (or ‘Antitrust’, for short).

This course will not follow closely a particular textbook. However, the following undergraduate textbook can be used as a general reference (covering both parts of the course), even though it is a bit elementary,

Viscusi W., J. Vernon and J. Harrington, *Economics of Regulation and Antitrust*, Cambridge (Mass.): MIT Press, 2005, 4th edition.

This textbook is available in electronic format via the library catalog.

A general and encyclopaedic reference work (though often too technical for our course) is the *Handbook of Industrial Organization*, Vols. 1,2 (1989), Vol. 3 (2007), Elsevier.

We will use a couple of the entries in this work (see below).

1) Regulation

This part studies so called ‘*natural monopoly*’ markets, in which for technological reasons, competition cannot operate smoothly. Instead, the behaviour of market participants must be ‘regulated’ (constrained in various ways).

This theory of regulation can be divided in two strands:

- a) The more traditional theory which assumes full information . That strand is covered at a very accessible level in

Braeutigam R., “Optimal policies for natural monopoly”, in Schmalensee R., and R. Willig, *Handbook of Industrial Organization*, Elsevier, 1989, vol. 2.

- b) A newer strand which focuses on asymmetric information. Again, we will use an article from the *Handbook of Industrial Organization*,

Armstrong M., and David E.M. Sappington, “Recent Developments in the Theory of Regulation”, *Handbook of Industrial Organization*, Elsevier, 2007, vol. 3

An advanced textbook on regulation is

Laffont J., and J. Tirole, *A Theory of Incentives in Procurement and Regulation*. Cambridge (Mass.): MIT Press, 1993.

This textbook covers rather exhaustively regulation under asymmetric information. I find it too long, so I will rely mostly on the more concise treatment in the Armstrong reference.

2) Antitrust

Antitrust, on the other hand, explores the measures that must be taken to counteract deliberate strategies on the part of market participants aimed at neutralizing competition (i.e., collusion, mergers, vertical agreements, and various behaviours whose objective is to keep potential entrants out of the market), *in markets in which, in principle, competition is feasible*. In a sense, the aim of antitrust measures is to restore competitive conditions to those markets.

A very readable reference for the material in this part is

Motta M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004.

Though the emphasis of this course is not on the institutional, legal and historical aspects, two references from which I might assign readings are

Kwoka J.E., and L.J. White, *The Antitrust Revolution*, 4th. Edition. New York: Harper and Collins, 1994.

Kora Valentine, *An Introductory Guide to EEC Competition Law and Practice*, Oxford University Press, 2000.

General References:

Finally, some references for the theory underlying competition policy and regulation are,

Tirole J., *Industrial Organization*, Cambridge: MIT Press, 2003.

This is a standard industrial organization textbook, which perhaps you should consider owning.

For the theory of contracts under asymmetric information, of which regulation under asymmetric information is a special version, see

Laffont J. and D. Martimort, *The Theory of Incentives I: The Principal-Agent Model*. Princeton University Press, 2002.

Also, for a more wide ranging coverage,

Bolton P. and M. Dewatripont, *Contract Theory*, Cambridge (Mass.): The MIT Press, 2005.

An additional reference that might come in handy for those who are assigned banking regulation cases, is

Freixas X. And J.C. Rochet, *Microeconomics of Banking*, Cambridge (Mass.): The MIT Press, 2008.

Additional references will be provided for the different cases I will ask you to cover as class assignments (see below).

Finally, more for general economic culture than anything else, the state of the art reference for the theory of oligopoly is

Vives X., *Oligopoly Pricing: Old ideas and new tools*, Cambridge (Mass.): The MIT Press, 2000.

In the same spirit, the state of the art reference on industry structure, and a classic,

Baumol W., J. Panzar and R. Willig, *Contestable Markets and the Theory of Industry Structure*, Harcourt College Publications, 1988.

Course Schedule:

There are ten weeks of classes, and 7 seminars. One class will be used for a midterm, thus we are left with 9 weeks (+/- class).

1. Week (1st. of october)

-Brief Introduction: Regulation vs. Antitrust; Efficiency as Leitmotive

-Review of Pareto Optimality and Surplus

-Review of Monopoly Theory

Tirole, *Theory of Industrial Organization*, Chapter 1 and 3.

Viscusi et al, Chapter 4.

-Natural Monopoly

Braeutigam R., “Optimal policies for natural monopoly”, in Schmalensee R., and R. Willig, *Handbook of Industrial Organization*, Elsevier, 1989, vol. 2.

2. Week (8th. of october)

-Natural Monopoly Continued: Regulation under Full Information

Braeutigam R., “Optimal policies for natural monopoly”, in Schmalensee R., and R. Willig, *Handbook of Industrial Organization*, Elsevier, 1989, vol. 2.

Viscusi et al., Chapter 11, 12, 13, 15.

3. Week (15th. of october)

-Natural Monopoly Continued: Regulation under Asymmetric Information

Armstrong M., and David E.M. Sappington, "Recent Developments in the Theory of Regulation", *Handbook of Industrial Organization*, Elsevier, 2007, vol. 3

Laffont J., and J. Tirole, *A Theory of Incentives in Procurement and Regulation*. Cambridge (Mass.): MIT Press, 1993. Chapter 1.

4. Week (22th. of october)

--Natural Monopoly Continued: Regulation under Asymmetric Information

Armstrong M., and David E.M. Sappington, "Recent Developments in the Theory of Regulation", *Handbook of Industrial Organization*, Elsevier, 2007, vol. 3

Laffont J., and J. Tirole, *A Theory of Incentives in Procurement and Regulation*. Cambridge (Mass.): MIT Press, 1993. Chapter 1.

5. Week (29th. of october)

Monday, 29th. October: 1st. **Midterm**

-Review of Cournot, Bertrand, Monopolist Competition, Contestable Markets

Tirole, *The Theory of Industrial Organization*, Chapters 5, 8.

Viscusi et al., Chapter 5.

6. Week (5th. of november)

-Review contd.

-Antitrust: Legal Framework EU vrs. US./ Some History

Motta M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004. Chapter

1.

Viscusi et al., Chapter 3.

Kora Valentine, *An Introductory Guide to EEC Competition Law and Practice*, Oxford University Press, 2000. Introduction 1.

7.Week (12th. of november)

-Market Definition

Motta M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004. Chapter 3.

-Review of Supergames

-Collusion and Horizontal Agreements/ Mergers

Tirole, *The Theory of Industrial Organization*, Chapter 6.

Motta M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004. Chapter 4.

Viscusi et al., Chapter 7.

8.Week (19th. of november)

-Vertical Restraints and Vertical Mergers

Motta M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004. Chapter 6.

Tirole, *The Theory of Industrial Organization*, Chapter 4.

Viscusi et al., Chapter 8.

9.Week (26th. of november)

-Exclusionary Practices: Predatory Pricing, Excessive Pricing, Margin Squeeze

Motta M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004. Chapter 7.

Tirole, *The Theory of Industrial Organization*, Chapter 8,9.

Viscusi et al., Chapter 6, 9.

10.Week (3rd . of december)

-Exclusionary Practices: Exclusive Dealing/ Loyalty Discounts/Rebates; Tying and Bundling; Refusal to Deal

Motta M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004. Chapter 7.

Tirole, *The Theory of Industrial Organization*, Chapter 8,9.

-2nd Midterm (4th . of december)

Prerequisites: An intermediate course in Microeconomics. Basic notions of game theory and optimization under constraints. Desirable, but not required, an introductory IO course. I will try to make the course as self-contained as possible, but there are limits to such an endeavor.

Course Evaluation

The course will be evaluated on the basis of

- 1) 4 Homeworks (10% all) (assigned every week, starting out from the 2nd.)
- 2) Case Assignment (25%).
- 3) Two Midterm Exams (7.5% each) (29th nov., 4th . of december) .
- 4) Final Exam (50%) (as scheduled by the university)(the September exam will count just the same, 50%. To be precise, if you take the September exam, then the grade you get in that exam will substitute for the grade of the final, and will count 50% of your final grade, regardless of whether it is higher or lower than the grade you got in the final.).

All grades will be averaged using the weights just mentioned. There is no minimum grade to pass the final (or, for that matter, the partials). You will pass the course if and only if your overall average exceeds 50%.

Also, as it looks as if there might be around 100 students in this course, I will not have much margin to be flexible. Thus, I will not program individual exams, except if the university officially asks me to. Similarly, homeworks will have to be handed in (paper –no email or any electronic format) at the dates foreseen, at the beginning of the seminar to which the student is officially assigned –no exceptions.

On the homeworks:

The homeworks will consist of two types of questions: 1) ‘Knowledge’ questions (simple questions meant to help you absorb key concepts); and, 2) Somewhat more elaborate ‘problem’ questions meant to help you learn to use the concepts and tools you have learned. This ‘problem’ questions will often be based on additional readings assigned in class

Each problem set will consist of 4-5 knowledge questions and 2-3 problem questions. The homework will be assigned Monday in the theory class, and must be handed-in at the beginning of the following practice session. The homeworks will not be graded, though they must be handed in (you will get the points so long as you hand in and I judge you made a bona fide effort).

On the exams:

The first midterm will cover regulation. The second midterm will cover only antitrust material. The final will cover both parts of the course.

All exams will be fill-in/multiple-choice., and will take place during theory class. Each midterm will have 5 questions each. Both midterms will be 30 minutes exams, and will be returned graded one week later at the theory class following the exam.

On the assignments:

Every seminar group will be divided in groups of 10 students (assuming there are 30 students in each of the three seminars –which will all be taught by me, by the way). Each such group, in turn, will be subdivided in two groups of 5. Each group of 10 must choose a case, either in regulation or in antitrust, from a list of 10 cases I will provide (5 regulatory cases, 5 competition cases). Then, for each case chosen, one subgroup of 5 must argue in favor, one against. Each subgroup will have 15 minutes to present its side (taking questions from me and the audience). Thus, each case (for and against) will be presented over 30 minutes. Afterwards, we will have 20 minutes general discussion, and finally, I , adopting the role of judge, will decide who won, and will assign grades to each subgroup of 5 (all students in the subgroup get the same grade –the winner gets up to 25 points; the loser up

to 15.). Thus, each case will take up a full seminar. If there are three groups of 10 in each seminar, 3 seminar sessions will be taken up discussing cases.

You can use all the materials you want (I will give you some references, but you are encouraged to search on your own). Each subgroup of 5 must prepare slides. You should try to apply the theoretical arguments we will discuss in class to argue your side (assuming they are relevant at all for the particular case you choose).

Grading

As usual, passing grade is 5 (on a scale of 10).

OPERATIONAL ISSUES:

E-mail :

Often I will make use of email to send materials (homeworks, readings) and make announcements. The email announcements will repeat (usually) the announcements made in class. In case I announce something in class but not via email, the class announcement will control. No one will be excused because he or she was not present in class to hear the announcement.

Furthermore, I would like to kindly ask you to limit your use of email to situations of utter need. All petitions, in particular, should be made personally to me during class. Only in extraordinary cases, will I admit email petitions (and I will be the sole judge of what an extraordinary situation is –if an email does not fit this requirement, then I will simply ignore it). No academic explanations via email!

Please, use my personal email if you have to:

dbfilipovich@yahoo.com

Attendance

Students arriving more than ten minutes late to the class will not be admitted.

It is the students responsibility to keep informed about what the teacher said in class. As said, class announcements control. For time reasons, I will not be taking attendance. However, this does not exempt students from the obligation to attend class (and be prepared to answer questions and participate). This is not a long distance course. In fact, I will not be using Moodle, amongst other reasons, exactly to keep the course from becoming one.

Exam and Grade Revisions:

Exam revisions are meant to correct grading mistakes only, not to offer explanations about the material (use office hours for that), or even less, to question the teachers' criterium. As always, the teacher's criterium controls.

Any grade revisions (partial exams, homeworks) have to be requested in a timely fashion. To be precise, within the week following the return of the partial/homework. Complaints outside this period will not be considered.

Class Behaviour:

It is an unfortunate fact that there are always students who insist on talking practically non-stop during class. I have zero tolerance for that. It interferes with my concentration, and I am sure, with your fellow students' concentration as well. Besides, I take it as a lack of respect towards the lecturer (regardless of what exactly you are talking about - if you have questions about the material, ask me. I will be delighted to take them). Thus, after warning the talkers twice, the third time I will ask them to leave the classroom. Just do it. This will not have any further consequences (except of course, if I keep having to ask the same people again and again to leave –though such a thing has never happened).

Competencias: G1, G4, G7, G9, G20, G11 G13, G14, G18, G19 ,E1

- G1. Comprender e interpretar de manera pertinente y razonada textos escritos de nivel y carácter académicos.
- G4. Ser capaz de utilizar la lengua inglesa en todos los ámbitos laborales (leer, escribir y hablar en un registro alto)
- G7. Desarrollar la capacidad de razonamiento autónomo con distancia crítica en temas o cuestiones controvertidas.
- G9. Tener consolidados hábitos de autodisciplina, autoexigencia y rigor en la realización del trabajo académico, así como en la organización y en su correcta temporalización.
- G11. Ser capaz de aplicar con flexibilidad y creatividad los conocimientos adquiridos y de adaptarlos a contextos y situaciones nuevas
- G13. Demostrar un nivel de conocimientos suficientes para la actuación profesional
- G14. Conocer los diferentes contextos en los que trabaja: la coyuntura económica, el sector, el mercado, la empresa y el departamento
- G18. Aplicar los conocimientos y procedimientos relevantes a un abanico de situaciones complejas
- G19. Identificar los factores claves de un problema
- G20. Demostrar una aproximación crítica ante situaciones diversas
- E1 Análisis de modelos del comercio internacional