

Syllabus Industrial Organization

Course Teacher: Christian Michel (christian.michel@upf.edu)

Course Dates:

Lectures:

Group 1: Monday and Tuesday, 9.00-10.30,

Group 2: Monday and Tuesday, 11.00-12.30

Exercise classes: 6 consecutive weeks from 1.2.2015-11.3.2015 Please look at your individual timetables for your specific times and class teachers.

Office Hour:

Monday, 1pm-2pm, Office 20.1E52. Please send me a quick email if you intend to come to the office hour. You can also always talk to me before and after a lecture

Course Objective:

The course builds on basic microeconomics concepts to study in detail both the interactions between different firms and between firms and consumers.

The course first introduces basic concepts in Industrial Organization to study imperfect competition and the determinants of market power. It then proceeds to analyze important topics in competition policy, such as cartels and merger policy. In the third part of the course issues of consumer protection are studied using concepts from Behavioral Economics. The fourth part of the course then proceeds with an analysis of network industries, which have gained importance due to many Internet businesses with network characteristics.

Prerequisites:

Introduction to Microeconomics

Introduction to Game Theory

Textbooks:

Belleflamme, P., & Peitz, M. (2010). *Industrial Organization: Markets and Strategies*. Cambridge University Press.

Henceforth: BP.

Motta, M. (2004). *Competition policy: Theory and Practice*. Cambridge University Press.

Tirole, J. (1988). *The Theory of Industrial Organization: Jean Tirole*. MIT press.

Camerer, C., Loevenstein, G., & Rabin, M. *Advances in Behavioral Economics*, Princeton University Press, 2004

No textbook is explicitly required for the course. However, the course and the lecture slides will go relatively close along the lines of the Belleflamme and Peitz book. This is the main material you can access for further reading.

The Motta book gives great insights and coverage about Competition Policy.

The Tirole book contains some of the basic concepts with a slightly different approach, even if some of the material is more advanced. There also exists a Spanish translation for the book. However, some parts of the course, especially towards the end of the course, are not covered in there.

For the Behavioral Industrial Organization section we there is no textbook that covers all the topics (so far). The Camerer/Loewenstein/Rabin textbook gives a nice description of the first part of this section, so you might have a look if you are interested.

Outline of Course Schedule (subject to change, not all sections will be devoted the same amount of time):

Lecture 1: General Introduction
Literature: BP, Ch.1

PART I: Industrial Organization Theory and Basic Sources of Market Power

Lectures 2-3: Static oligopoly and Entry
Literature: BP, Ch. 3.1, 3.2, 3.3, 7.2.1

Lecture 2: Bertrand (price) competition
Switching costs

Lecture 3: Cournot (quantity) competition with different costs
Cournot Competition with N firms
Sequential moves

Lectures 4-5: Product differentiation
Literature: BP, Ch. 3.1.3, 3.1.4, 3.3.2, 3.4, 4.1.1, 5.1, 5.2, 5.3.1

Lecture 4: Horizontal Differentiation: static Hotelling game
Hotelling game with endogenous location
Vertical Differentiation

Lecture 5: Random utility demand models and their applicability to IO and marketing
Small Case: Estimating demand in the ready-to-eat cereal industry

Lecture 6: Static Entry
Strategic Entry
Small Case: Netflix entering European markets

Literature: BP, Ch. 3.1, 3.2, 3.3, 7.2.1, 16.1

PART II: Competition Policy

Lectures 7-8: Dynamic oligopoly and collusion
Literature: BP, Ch. 14

Lecture 7 Collusion theory: infinitely repeated games

Lecture 8: Cartel detection
Small Case: Vitamins Cartel
Small Case: "The informant"

Lectures 9-10 Merger Policy and Tests of Market Power

Literature: BP, Ch. 15

Lecture 9: Horizontal Merger Theory
Mergers in a Cournot Model
Mergers in a Differentiated Bertrand Model

Lecture 10: Big Case 1: The 1993 Post-Nabisco breakfast cereal merger

Literature:

Corts, K. (1995). *The ready-to-eat breakfast cereal industry in 1994 (A)*. Harvard Business School.

Rubinfeld, D. L. (2000). Market definition with differentiated products: the post/Nabisco cereal Merger. *Antitrust Law Journal*, 163-185.

PART III: Behavioral Industrial Organization and Consumer Policy

Lecture 11: Non-standard consumer utility: Quasi-hyperbolic Discounting
Self-Control Problems
Naïve vs. Sophisticated consumers

Literature: Camerer/Loewenstein/Rabin, Ch. 8

Lecture 12: Small Case: “Paying not to go to the gym”
Small Case: Consumer Naïveté in the credit card market
Arguments for and against consumer protection

Literature:

DellaVigna, S., & Malmendier, U. (2006). Paying not to go to the gym. *The American Economic Review*, 694-719.

Heidhues, P., & Köszegi, B. (2010). Exploiting naivete about self-control in the credit market. *The American Economic Review*, 2279-2303.

Lecture 13: MIDTERM EXAM (covers the material from lectures 2-10): 23.2.2015 (exact time TBA)

Lecture 14: Consumer Myopia and add-on goods
The market for deceptive products

Literature:

Gabaix, X., & Laibson, D. (2006). Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets. *The Quarterly Journal of Economics*, 121(2), 505-540.

Heidhues, P., Koszegi, B., & Murooka, T. (2012). The market for deceptive products. *University of California, Berkeley*.

Lecture 15: Big Case 2: Extended warranty regulation in the UK market for consumer electronics

PART IV: Network Industries

Lecture 16: Network effects theory
Small Case: Technology adoption in VCR market

Literature: BP, Ch. 20.1, 20.2

Lecture 17: Market Intermediaries theory
Small Case: Kindle and iTunes Software vs Hardware

Literature: BP, Ch 22.

Lecture 18 Big Case 3: The complex competition (and consumer) case of Google

Lecture 19: Open Issues

Lecture 20: Revision lecture

Exercise Class Schedule:

1. Same week as Lectures 7,8: Problem Set 1 – Industrial Organization Theory
2. Same week as Lectures 9, 10: Market Experiment
3. Same week as Lectures 11, 12: Problem Set 2 – Competition Policy
4. Same week as Lectures 13, 14: Competition Cases 1
5. Same week as Lectures 15, 16: Competition Cases 2
6. Same week as Lectures 17, 18: Problem Set 3 - Consumer Policy

Course Evaluation:

3 Problem Sets (10%)+ Class Participation (10%) : 20%

1 Competition Case participation during exercise classes: 10%

Midterm Exam: 20%

Bonus from participation during lectures (10%) and from exercise class experiment (5%): 0-15%

Final Exam: 35-50% (depending on bonus)

During the course there will be three problem sets that have to be handed in electronically before the exercise classes. Attendance of the exercise classes is mandatory. The class teachers will evaluate your participation in the exercise classes, and grade your problem sets.

In addition, each student has to participate in one competition policy case that will be during two of the exercise classes, which amounts to 10% of the final grade

Furthermore, there will be one exercise class in which the students participate in a market experiment, and can gain a positive additional bonus grade when being successful. A further bonus grade can be achieved through participation during the lectures. All bonus grades only count if they are better than the grade in the final exam. This means that a bonus grade will never hurt a student for the final grade.

To pass the course, it is a necessary requirement to get at least 5 out of 10 points in the final exam and overall course average, and to pass the participation criterion for the exercise classes.

Acknowledgments: Part of the lecture notes are based on the lecture notes of Nicholas Schutz and Paul Belleflamme/Martin Peitz, which I gratefully acknowledge. Of course, all errors are mine.

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