Course Description: This is the second PhD course in industrial organization, covering the application of industrial economics to issues of market power and the public policies used to address it. We define market power, then explain its various forms and how to identify them, and analyze how they can be controlled through antitrust and regulation. The course will provide an understanding of the economic foundations of these policies, the issues raised by their application, and the methods used to evaluate and reform these policies. The course will also assist you in identifying researchable issues in competition and regulatory economics.

Apart from a brief introduction, the course is structured around a series of topics. For each topic, we apply theory and draw on empirical understanding in order to analyze the key issues and policies. Case studies and examples will be used extensively for illustrative purposes.

Prerequisite: Econ 7771, Framework of Industrial Organization

Readings: Two textbooks are used extensively in this course:


Other readings come from a variety of sources, including:


Copies of other required readings (including cases from earlier editions of *The Antitrust Revolution*) either are available online or will be provided. Required readings are marked with an asterisk (*). Other readings are optional and will be useful for your further research and for preparation for taking the comprehensive examination in IO.

Course Metrics: Grading in the course will be based on the following:

1. A midterm exam plus a final. The midterm will cover Section A of the syllabus and will be given on October 27. The final will cover the entire course but will be weighted toward the material in Section B.
2. Approximately four homework problem sets/exercises during the term.
3. Two short research proposal plus one preliminary report, to be described separately.
4. Class preparation and participation.
A. COMPETITION AND COMPETITION POLICY

A.1 Background (1)
*Kwoka and White, pp. 1-6
Church and Ware, Appendix

A.2 Collusion and Coordination (1)
*Motta, ch. 4 (pp. 137-150, 160-166, 185-195)
*Connor on lysine, in Kwoka-White, pp. 336-347
Kuhn and Vives, “Information Exchanges Among Firms and Their Impact on Competition,” 1995
Connor and Bolotova, “Cartel Overcharges: Survey and Meta-Analysis,” _IJIO_, 2006

A.3 Facilitating Practices (1)
*Motta, ch. 4 (pp. 151-160)
*Church and Ware, pp. 348-355
*Cooper, “Most Favored Customer Clauses and Tacit Collusion,” _RJE_, Autumn 1986
*Hay on Ethyl, pp. 190-200, in Kwoka-White, 3/e
Borenstein on ATP, in Kwoka-White 4/e
Miller, “Did the Airline Tariff Publishing Case Reduce Collusion?” _JLE_, 2010
Inderst and Shaffer, “Market Share Contracts as Facilitating Devices,” _RJE_, Winter 2010
Chen and Liu, “The Effect of Most Favored Customer Clauses on Prices,” _JIE_, 2011

A.4 Horizontal Mergers in Theory (1.5)
*Kwoka-White, pp. 14-29
*Motta, ch. 3, ch. 5 (pp. 231-252)
*Belleflame and Pietz, _Industrial Organization_, pp. 373-396
A.5 Horizontal Mergers and Policy (1.5)
*Kwoka-White, pp. 13-29
*Motta, pp. 265-277
*Dalkir and Warren-Boulton on Staples, in Kwoka-White
*Kovacic, “Quantitative Analysis of Coordinated Effects,” ALJ, 2009
Haas-Wilson on Evanston Hospital, in Kwoka-White
Nevo, “Mergers with Differentiated Products,” RJE, 2000

A.6 Monopolization by Strategic Pricing (1.5)
*Motta, ch. 7 (pp. 412-426, 433-435, 442-454)
*Tirole, Theory of Industrial Organization, ch. 9
*Burnett on Liggett, in Kwoka-White 3/e
*Dafny, “Games Hospitals Play: Entry Deterrence in Hospital Markets,” JEMS, 2005
Elzinga and Mills on Spirit, in Kwoka-White
Edlin, “Predatory Pricing,” in RHEAL
Edlin and Farrell on American Airlines, in Kwoka-White 4/e
Church and Ware, ch. 20, 21

A.7 Monopolization by Exclusion (1.5)
*Motta, ch. 7 (pp. 454-473)
*Tirole, pp. 333-335
*Church and Ware, ch. 20, 22 (704-706)
*Rubinfeld on Microsoft, in Kwoka-White
Gans on Intel, in Kwoka-White
Marx and Shaffer, “Upfront Payments and Exclusion in Downstream Markets,” RJE, 2007
Ordover and Shaffer, “Exclusionary Discounts,” IJIO, 2013
Choi, “Antitrust Analysis of Tying,” in Recent Developments in Antitrust, Choi, ed.

A.8 **Vertical Integration** (1.5)
* Riordan, “Competitive Effects of Vertical Integration,” in HAE
* Church-Ware, ch. 22 (pp. 683-688)
* Rogerson on Comcast-NBCU, in Kwoka-White
Topper on Google-ITA, in Kwoka-White

A.9 **Vertical Restraints** (1.5)
* Motta, pp. 302-323, 333-343
* Elzinga and Mills on Leegin, in Kwoka-White
* Comanor and Scherer, amicus brief, Leegin v. PSKS
Motta, ch. 6 (pp. 302-378)
LaFontaine and Slade, “Exclusive Contracts and Vertical Restraints,” ch. 10 in HAE

A.10 **Networks and Two-Sided Markets**
Motta, ch. 2 (pp. 82-88), ch. 7 (pp. 483-490)
Pindyck on Visa-Mastercard, in Kwoka-White
Priest, “Networks and Antitrust Analysis,” in ICLP
Rysman, “The Economics of Two-Sided Markets,” JEP, 2009
Carlton and Frankel, “The Antitrust Economics of Credit Card Networks,” ALJ, 1995
Katz and Shapiro, “Network Externalities, Competition, and Compatibility,” AER, 1985
A.11 Intellectual Property Rights
Bigelow-Willig on reverse payments, in Kwoka-White
Motta, pp. 202-210

B. REGULATION, DEREGULATION, AND COMPETITION

B.1 Overview (1)
*Church and Ware, ch. 24 (pp. 747-769), Appendix
Armstrong and Sappington, “Regulation, Competition, and Liberalization,” JEL, 2006

B.2 Price Regulation with Complete Information (1.5)
*Church and Ware, ch.25
*Hayashi et al, “Pricing Efficiency Under Rate-of-Return Regulation,” SEJ, 1985
Armstrong et al, Regulatory Reform, ch. 2
Braeutigam, "Optimal Policies for Natural Monopolies," ch. 23 in HIO, pp.1290-1327

B.3 Price Regulation with Incomplete Information (1)
*Church and Ware, ch. 26.1-26.2.4, pp. 800-1
Armstrong-Sappington in HIO, pp. 1606-1616

B.4 Deregulating Airlines in Theory (1)
*Viscusi et al, ch. 17 (pp. 609-639)
*Church and Ware, ch. 14 (pp. 507-518)

B.5 Deregulated Airlines in Practice (1.5)
*Kwoka et al, “From the Fringe to the Forefront: Low-Cost Carriers and Airline Price Determination,” RIO, 2015
Kim et al, “Reward Programs and Tacit Collusion,” Marketing Science, 2001
Ciliberto and Williams, “Does Multimarket Contact Facilitate Tacit Collusion: Inference on Conduct Parameters in the Airline Industry,” RJE, 2014

B.6 Deregulating Telecom in Theory (1)
*Economides, “Telecommunications Regulation: An Introduction,” pp. 54-60

B.7 Deregulated Telecom, Broadcast, and Broadband (1.5)
*Church and Ware, ch. 26.3, pp. 871-877
*DeGraba and Rosston, on AT&T/T-Mobile, in Kwoka-White
Economides et al, “Quantifying the Benefits of Entry into Local Service,” RJE, 2008
Vogelsang, “Price Regulation of Access to Telecom Networks,” JEP, 2003, pp. 830-845
Chen, “Telecommunications Mergers,” in Competition Policy and Merger Analysis in Deregulated Industries, Carstensen and Farmer, eds.

B.8 Restructuring the Electricity Sector in Theory (1)
*Joskow, “Restructuring, Competition, and Regulatory Reform in the U.S. Electricity Sector,” JEP, 1997
Borenstein, “The Trouble with Electricity Markets and the California Electricity Restructuring Disaster,” JEP, 2002
B.9 Restructured Electricity: The Issues (1.5)


Wolak on the proposed PSEG-Exelon merger, in Kwoka-White
Pollitt, “The Role of Policy in Energy Transitions,” 2011

B.10 The Public Ownership Alternative

Kwoka, “The Comparative Advantage of Public Ownership,” CJE, 2005
Lopez-de-Salines, Shelifer, and Vishny, “Privatization in the United States,” RJE, 1997