Econ 7772

Public Policies Toward Businesses and Markets

Course Description: This is the second PhD course in industrial organization, covering the application of industrial organization economics to antitrust and regulatory policy. The course will provide you with an understanding of the economic foundations of these policies, the issues raised by their application, and the methods used for evaluating and reforming these policies. The course will also assist you in identifying researchable issues in competition and regulatory policy.

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 underlying issues and policies. Case studies and examples are drawn primarily from U.S. experience, but other examples are welcome.

Prerequisite: Econ 7771, Framework of Industrial Organization

Readings: Two textbooks are used extensively in this course:

Kwoka and White, The Antitrust Revolution 6/e (2014)

Other readings come from a variety of sources, including:


Handbook of Industrial Organization (HIO), v. 3, Armstrong and Porter, eds. (2007)
Handbook of Antitrust Economics (HAE), Buccirossi, ed. (2008)

Copies of other required readings (including cases from earlier editions of The Antitrust Revolution) either are available online or will be provided directly to you. 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 21. The final will cover the entire course but be weighted toward the material in Section B.

(2) Approximately four homework problem sets/exercises during the term.

(3) Two short papers, to be described separately.

(4) Class preparation and participation.
A. ANTITRUST

A.1 Overview (.5)
*Motta, ch. 1, ch. 2 (pp. 39-48, 55-58)
*Kwoka and White, pp. 1-6

Church and Ware, Appendix
Kovacic and Shapiro, “Antitrust Policy: A Century of Economic and Legal Thinking,” 
JEP, 2000

A.2 Cartels, Coordination, and Facilitating Practices (2)
*Motta, ch. 4 (pp. 137-166, 185-195)
*Harrington, "Detecting Cartels," ch. 6 in HAE, pp. 213-232
*Connor on the lysine cartel, in Kwoka-White
*Cooper, “Most Favored Customer Clauses and Tacit Collusion,” RJE, Autumn 1986
*Hay on Ethyl, pp. 190-200, in Kwoka-White, 3/e
*Chea and Liu, “The Effect of Most Favored Customer Clauses on Prices,” JJE, 2011

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
Harrington and Zhao, “Signaling and Tacit Collusion in an Infinitely Repeated Prisoners’
Dilemma,” Mathematical Social Sciences, 2012
Kuhn and Vives, “Information Exchanges Among Firms and Their Impact on
Competition.”1995

A.3 Horizontal Mergers (3)
*Whinston, “Antitrust Policy Toward Horizontal Mergers,” ch. 36 in HIO
*Motta, ch. 3, ch. 5 (pp. 231-252, 265-277)
*Dalkir and Warren-Boulton on Staples, in Kwoka-White
*Kwoka on Ticketmaster/Live Nation, in Kwoka-White
*Shapiro, “Mergers with Differentiated Products,” DOJ, 1995
*Moresi, “Use of UPP in Merger Analysis,” Antitrust Source,2010
*Waelhner, "A Primer on the Competitive Effects of Mergers in Auction and Bidding

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Werden, “Unilateral Competitive Effects of Horizontal Mergers,” in ICLP
Haas-Wilson on Evanston Hospital, in Kwoka-White
Klemperer, “Competition Policy in Auctions and Bidding Markets,” in HAEC
Sweeting, “The Effects of Mergers on Product Positioning,” RJE, Summer 2010
Slade, “Market Power and Joint Dominance in UK Brewing,” JIE, March 2004

A.4 Monopolization by Strategic Pricing (2)
*Motta, ch. 7 (pp. 412-426, 433-435, 442-454)
*Tirole, Theory of Industrial Organization, pp. 372-379
*Burnett on Ligget, in Kwoka-White 3/e
*Bolton, Brodley, and Riordan, Predatory Pricing, Strategic Theory, and Legal Policy, Georgetown Law Review, 2000, pp 2239-62
*Elzinga and Mills on Spirit, in Kwoka-White

Edlin, “Predatory Pricing,” in RHEAL
Edlin and Farrell on American Airlines, in Kwoka-White 4/e
Genesove and Mullin, Predation and Its Rate of Return: The Sugar Industry, RJE, 2006
Church and Ware, ch. 21

A.5 Monopolization by Exclusion (2)
*Motta, ch. 7 (pp. 454-473)
*Church and Ware, ch. 20, ch. 22 (704-706)
*Rubinfeld on Microsoft, in Kwoka-White
*Gans on Intel, in Kwoka-White
*Baker, “Exclusion as a Core Competition Concern,” ALJ, 2013

Marx and Shaffer, “Upfront Payments and Exclusion,” RJE, 2007
Kuhn and van Reenen, “Interoperability and Market Foreclosure in the European Microsoft Case,” in Cases in European Competition Policy, B. Lyons, ed.
Kuhn et al, “Economic Theories of Bundling and Their Policy Implications in Abuse
A.6 Vertical Mergers and Vertical Restraints (2)
*Church-Ware, ch. 22 (pp. 683-696)
*Cooper et al, "Vertical Antitrust Policy as a Problem of Inference," IIJO, 2005
*Elzinga and Mills on Leegin, in Kwoka-White
*Comanor and Scherer, amicus brief, Leegin v. PSKS
*Topper et al on Google-ITA, in Kwoka-White

Nalebuff on Independent Ink, in Kwoka-White
Motta, ch. 6 (pp. 302-378)
Hastings, "Vertical Contracts and Competition in Retail Gasoline Markets," AER, 2004
LaFontaine and Slade, "Exclusive Contracts and Vertical Restraints," ch. 10 in HAE

A.7 Networks
Motta, ch. 2 (pp. 82-88), ch. 7 (pp. 483-490)
Pindyck on Visa-Mastercard, in Kwoka-White
Rogerson on Comcast-NBCU, 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
Mackie-Mason and Metzler on Kodak, in Kwoka-White 4/e
Katz and Shapiro, "Network Externalities, Competition, and Compatibility," AER, 1985
Economides and Hermalin, "The Economics of Network Neutrality," RJE, 2012

A.8 Intellectual Property Rights
Gilbert, "Competition and Innovation," in ICLP
Bigelow-Willig on reverse payments, in Kwoka-White
Motta, pp. 202-210
B. REGULATION, DEREGULATION, AND PUBLIC OWNERSHIP

B.1 Overview (1)
*Church and Ware, ch. 24

Clearing House Assn, "Understanding the Economics of Large Banks," 2011
Scherer, "A Perplexed Economist Confronts 'Too Big to Fail'," Kennedy School 2010
Armstrong and Sappington, "Regulation, Competition, and Liberalization," JEL, 2006
Shelanski, "Antitrust and Regulation,' in RHEAL

B.2 Price Regulation: Complete vs. Incomplete Information (3)
*Church and Ware, ch.25, ch. 26.1-26.2.4, pp. 800-1
*Kwoka, "Implementing Price Caps in Telecommunications," JPAM, 1993

Ter-Martirosyan and Kwoka, "The Effects of Incentive Regulation and Quality Standards on the Reliability of Electricity Service," JRE, 2010
Armstrong et al, Regulatory Reform, ch. 2
Braeutigam, "Optimal Policies for Natural Monopolies," ch. 23 in HIO, pp.1290-1327
Armstrong-Sappington in HIO, pp. 1606-1616

B.3 Deregulation of Multifirm Industries: Airlines (2.5)
*Viscusi et al, ch. 17 (pp. 609-639)
*Church and Ware, ch. 14 (pp. 507-513)
*Borenstein, "What Happened to Airline Market Power?" 2011
*Borenstein, "Why Can't Airlines Make Money?" AER, 2012
*Isreal et al on Delta-Northwest, in Kwoka-White

Cairns and Galbraith, "Artificial Compatibility, Barriers to Entry, and Frequent Flier Programs," CJE, 1990
Bilotkach, “Multimarket Contact and Intensity of Competition,” RIO, 2011

B.4 Deregulation of Multiproduct Firms: Telecom (2.5)
*Viscusi et al., ch. 15
*Economides et al., "Quantifying the Benefits of Entry into Local Service," JIE, 2008
*Church and Ware, ch. 26.3, 871-877
*Vogelsang, “Price Regulation of Access to Telecom Networks,” JEP, 2003, pp. 830-845
*DeGraba and Rosston, on AT&T/T-Mobile, in Kwoka-White

Laffont and Tirole, “Creating Competition through Interconnection,” JRE, 1996
Werden and Froeb, “Mergers in Differentiated Products Industries,” JLEO, 1994
Brenner on the Bell Atlantic-Nynex merger, in Kwoka-White, 4/e
Chen, “Telecommunications Mergers,” in Competition Policy and Merger Analysis in Deregulated Industries, Carstensen and Farmer, eds.

B.5 Deregulation of Resource Allocation: Spectrum and Auctions
Klemperer, “Auction Theory,” ICLP
Hazlett et al., “Radio Spectrum and the Disruptive Clarity of Ronald Coase,” JLE, 2012
Cramton, “Simultaneous Ascending Auctions,” in Combinatorial Auctions, Cramton et al., 2006

B.6 Restructuring and Residual Regulation: Electricity (2.5)
*Joskow, “Introduction to Electricity Sector Liberalization: Lessons Learned from Cross-Country Studies,” in Electricity Market Reforms, Sioshansi and
Paffenberger, eds.
*Milgrom, “Auctions and Bidding: A Primer,” JEP, 1989
*Borenstein, “Time-Varying Retail Electricity Rates,” in Electricity Deregulation: Choices and Challenges, Griffin and Puller, eds.

Bushnell, “Looking for Trouble,” in Electricity Deregulation: Choices and Challenges, Griffin and Puller, eds.
Wolak on the proposed PSEG-Exelon merger, in Kwoka-White
Borenstein, “The Trouble with Electricity Markets and the California Electricity Restructuring Disaster,” JEP, 2002

B.7 Public Ownership in Theory and Practice
Kwoka, “The Comparative Advantage of Public Ownership,” CJE, 2005
Laffont and Tirole, “Privatization and Incentives,” JLEO, 1991
Lopez-de-Salines, Shleifer, and Vishny, “Privatization in the United States,” RJE, 1997