Industry Economics and Antitrust Prof. John Kwoka

Course Description: This course covers major topics in the field of industrial organization economics together with major issues in antitrust/competition policy. More specifically, it investigates determinants of industry concentration, strategies that firms use to maximize profit, the effects of these factors on market efficiency and other objectives, and the role of antitrust policy in restraining market power. These issues are developed utilizing a combination of microeconomic theory, game theory, statistical evidence, and case studies.

Readings: There are two required textbooks for this course:
- Church and Ware, *Industrial Organization: A Strategic Approach* (CW)

Readings designated as coming from the third edition of Kwoka and White (“3/e”) are available online at: [www.oup.com/us/antitrustrevolution](http://www.oup.com/us/antitrustrevolution). Most outside readings are available for purchase from NU Reprographics. A few additional ones will be provided to you directly.

Classes: Class time will be devoted to the more important and the more difficult material, but you will be responsible for everything on the reading list. The approximate number of class periods for each section is noted in parentheses on the reading list below. We will, however, proceed from one section to the next as quickly as possible.

Course Requirements: The course requirements are as follows:

1. There are two midterm exams plus a final. The first exam will cover material in Sections 1-5 of the reading list and be held on Feb. 14. The second covers the additional material through Section 9 and will take place on March 24. The final will cover the entire course but be weighted toward material in Part C. Each midterm counts 25% of your overall grade; the final is 35%.

2. Several homework problem sets. These will not be graded.

3. A short paper that ties in with material in the Antitrust Part C and which counts for the remaining 15% of your grade. For this paper, you are to select an antitrust case from Kwoka-White (any edition) other than those on the reading list. Read the chapter carefully, and then write a five double-spaced page paper that addresses three issues:
   a. a very brief background to the case (no more than one page)
   b. an outline of one or two of the key issues raised in the case, drawing on your understanding of industrial economics as well as what is set forth in the case study (three pages)
   c. a proposal for a further study that would help determine whether the case was decided correctly. That is, describe a logical test of a key issue or a study of what resulted from the actual decision. Discuss the necessary data to undertake your test (I will give you some latitude here, but do not just assume the availability of implausible data), and explain how this will cast light on the key issue (one page).
**Blackboard:** I will make regular use of Blackboard for posting materials and for communicating messages to you. You are responsible for signing onto Blackboard for this course and for regularly checking it.

**Contact information:**
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**READINGS**

**A. INTRODUCTION**

1. **Industrial Economics and Performance** (1.5)
   CW, ch. 1
   ch. 2
   ch. 4.4-4.5

2. **Oligopoly and Concentration** (1.5)
   CW, ch. 3.1-3.2.3
   ch. 4.1

**B. OLIGOPOLY**

3. **Classical Theory** (2)
   CW, ch. 8.1-8.2.2, 8.3-8.3.2, 8.4-8.5
   KW, Case 4, Pelcovits on MCI-Sprint

4. **Game Theory and Dynamics** (2.5)
   CW, ch. 7, pp. 211-219
   ch. 9
   ch. 10.1-10.4.1, 10.5
5. Cartels (1.5)
KW, Case 10, Connor on the lysine cartel

6. Empirical Evidence (2)
CW, ch. 12, pp. 423-432, 440-452
ch. 6, pp. 141-147

B. EXTENSIONS

7. Entry and Entry Deterrence (2.5)
CW, ch. 4.2
ch. 13.1, 13.3, 13.4
ch. 14, pp. 485-494, 498-507, 513-517

8. Advertising (1.5)
Cabral, *Introduction to Industrial Organization*, ch. 13
CW, ch. 17
Martin, pp. 276-280

9. Price Discrimination (1.5)
CW, ch. 5.1-5.4.3
KW, Case12, Elzinga and Mills on BNPDAL

10. Networks (1.5)
Kwoka, “Networks and Natural Monopoly,” in *Network Access, Regulation, and Antitrust*, pp. 17-27
Cabral, ch. 17
KW, Case18, Faulhaber on AOL-TimeWarner
C. ANTITRUST

11. Introduction (.5)
   Kwoka-White, pp. 1-5
   CW, Appendix

12. Collusion and Cooperation (1.5)
   CW, ch. 10.6-10.7
   Kwoka and White, pp. 172-180
      Case 9, Borenstein on Airline Tariff Publishing
   Kwoka and White, 3/e: Hay on Ethyl, pp. 190-200

13. Mergers (2.5)
   CW, ch. 23
   Kwoka and White, pp. 8-25
      Case 2, Dalkir and Warren-Boulton on Staples
      Case 6, Baker on Heinz-Beech-Nut
   Kwoka and White, 3/e: White on Coke-Dr Pepper

14. Exclusion and Predation (2.5)
   CW, ch. 20.1-20.2
      ch. 21, pp. 643-650, 653-662
      ch. 22.3
   Kwoka and White, 3/e: Burnett on Liggett
   Kwoka and White, pp. 180-186, 414-425
      Case 20, Edlin and Farrell on American Airlines
      Case 19, Rubinfeld on Microsoft