

Rose-Hulman Institute of Technology / Department of Humanities & Social Sciences
Fall Quarter 2010 – 2011 / SV353, Industrial Organization

Section 1: 7th hour (1:35 – 2:25), Olin Hall O269

Section 2: 8th hour (2:30 – 3:20), Olin Hall O269

Instructor: Kevin Christ
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Course Web Site: <http://www.rose-hulman.edu/~christ/iohome.htm>
Texts and Readings: Cabral, Luís M. B., Introduction to Industrial Organization, The MIT Press, 2000

Kwoka, John E. and Lawrence J. White, The Antitrust Revolution, Economics, Competition, and Policy, 5th ed., Oxford University Press, 2009.

Rubinfeld, Daniel L., "Antitrust Policy," *International Encyclopedia of the Social and Behavioral Sciences*, Vol. 1: 553 – 560, Elsevier Science Ltd., 2001.

Christ, Kevin, "Regulation and Deregulation," Handout for SV353.

Course Description

SV353 is a society and values elective. SV151, Principles of Economics (or its equivalent), is a prerequisite. The course assumes a basic understanding of microeconomic principles, including demand and supply analysis, production and cost theory, and the theory of the firm.

As a field within economics, Industrial Organization, (IO) is concerned with three broad areas of economic inquiry:

- The behavior, scale, scope, and organization of production units (*firms*) in a market economy.
- The conduct of firms within groups (*industries*), and the performance of those industry groups.
- *Public policy* toward firms and industries, specifically the consideration of competition ("antitrust") policy, and the regulation of firms and industries.

This course surveys major topics in the field of Industrial Organization, but places a heavier emphasis on legal aspects of antitrust enforcement than do most IO courses. Specific topics we will study include: imperfect competition, game theory and strategic interaction, collusion and cartels, mergers, network effects, pricing, non-price competition, technology and market structure, regulation and deregulation. Within each topic we will consider the impact of firms' actions on consumer welfare. We will use both formal models and case studies to consider the motivation for and impact of market power on economic welfare. We will study U.S. antitrust laws, specific cases, and regulatory policies as tools which are used to mitigate the effects of monopoly and market power on economic welfare.

Student Learning Objectives

After completing this course, students should be able to:

- Use economic tools of analysis, including formal oligopoly models and game theory, to understand and evaluate market structures and outcomes.
- Be familiar with issues related to monopoly and market power, including its causes and consequences, the strategic behavior of firms in markets with market power, and the interactions between firms, market structures, and the economic performance of markets.
- Describe the welfare implications of market power, and explain how society, through laws, policies, legal judgments, and government regulation, deals with market power.

General Course Policies

- This syllabus provides a *basic* schedule and outline for the course. Students should consult the course web site for a comprehensive and up-to-date schedule, and for important links to course material.
- The Cabral text should be viewed as a supplement to classroom lectures and discussions. Classroom time will be much more productive if students are familiar with textbook material prior to the class for which a reading is assigned. Unless explicitly informed to the contrary, students are responsible for all assigned material.
- The assigned Kwoka and White case studies should be read carefully, and students should be prepared to contribute to discussions of cases on the days for which they are assigned. While all students are responsible for all assigned cases, individual students will be assigned the responsibility of presenting a summary of specific case studies.

- Grades for the course will be assigned according to the following criteria and scale:

Grade Component	Weight
Three Exams	60%
Research Paper	20%
Participation	20%

Score	Grade
90% or better	A
80% to 89%	B
70% to 79%	C
60% to 69%	D
Less than 60%	F

- Grades of B+, C+, or D+ may be assigned at the professor's discretion.
- With a written explanation, approved in advance by the professor, or in the case of pre-approved Institute-sponsored events, a make-up exam may be scheduled. Alternatively, a missed exam may result in the other examinations being weighted more heavily. All unexcused absences from exams will result in a failing grade for the exam.
- Late assignments will not be accepted, or will only be accepted for partial credit. Completion of the research paper is required in order to receive a passing grade for the course.
- The participation grade will be based on five subsidiary criteria: attendance, classroom participation, case study presentation, outside contact, and announced or unannounced classroom assignments.

	A-level	B or C-level	D-level or lower
Attendance	Regularly attends class	Has 1 to 3 unexcused absences	Has 4 or more unexcused absences
Discussion	Regularly contributes to classroom discussion	Rarely contributes to classroom discussion	Never contributes to classroom discussion
Case study presentation	Presents an accurate summary of an assigned case study	Presents a summary of an assigned case study that is inaccurate or in some other way inadequate	Fails to presents a summary of an assigned case study
Outside contact	Uses office visits to clarify questions and to discuss research paper	Rarely makes contact outside of classroom	Never visits during office hours or discusses research paper
Assignments	Performance on announced or unannounced classroom assignments, such as homework or quizzes.		

- Excessive absences or tardiness may result in forfeiture of some participation credit, and may result in failure of the course. Specifically, students with 4 unexcused absences will forfeit half of the available participation credit. Students with 8 unexcused absences will receive a failing grade for the course. See the Institute's Academic Rules and Procedures for the Faculty's policy on class attendance.
- Any academic misconduct will result in a failing grade for the course.
- There will be no individual extra credit opportunities.
- The professor reserves the right to amend these general course policies.

Research Paper

Your term project for this class will be a research paper discussing the organization and competitive dynamics of a selected industry or group of firms that interact strategically. The research paper should be 1,500 to 2,000 words in length (approximately 5 to 7 pages), exclusive of a cover page, tables, charts, bibliography, or other addendums. In addition to a simple cover page and a comprehensive bibliography, your paper should have three sections:

1. A general overview of the industry, including a discussion of the industry's recent evolution. This section should include discussions of industry concentration, entry conditions, and behavior and market performance of firms in the industry – both dominant firms (if any) and niche or peripheral firms. This section also may include discussions of any important innovations that have altered the industry, as well as a review of any important merger activity.
2. A discussion of specific business practices and/or antitrust cases relevant to the industry. This section should include a review of any important antitrust cases involving firms in the industry, and consideration of any business practices related to entry, exit, vertical relations, pricing, advertising, or any other features of the competitive interplay within the industry.
3. An evaluation of the welfare implications of industry structure and behavior. Specifically, this section should address how significantly issues related to the exercise of monopoly or market power affect social welfare associated with the industry.

This assignment is designed to provide students with an opportunity to apply course concepts to a specific industry and to engage in independent business research. As a starting point and for examples of industry studies, students are encouraged to consult the excellent overviews for the petroleum, beer, banking, airline, telecommunications and health care industries in Walter Adams and James Brock, The Structure of American Industry, 11th ed., (2005).

As the focus is on *current* issues in the industry, recognized business publications such as The Wall Street Journal, The Economist, Forbes, Business Week, The Financial Times, or the business pages of major newspapers will probably be excellent sources for outside research. Articles about the industry from academic books or journals may be useful, but are not necessary. Depending on the specifics of their chosen industry, students may find that notices or briefs relating to specific antitrust cases from the Federal Trade Commission web site may be helpful. Papers that use only web sites such as Wikipedia or Britannica Online as bibliographic sources will be considered inadequate.

Deadlines

Industry selection approved by professor: Friday, September 24.

Discussion of outline, bibliographic sources, and rough draft: by Friday October 29.

Final version of the paper: Friday, November 12.

Evaluation Criteria

Your paper will be evaluated on the following criteria:

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| 1. Deadlines | 15% |
| 2. Well-organized coverage of topic / conformance to paper organization as outlined above | 15% |
| 3. Evidence of outside research | 15% |
| 4. Application of course concepts | 15% |
| 5. Quality of final paper – grammar, usage, conformance to style guidelines ¹ | 40% |

On this last point, your paper should be well-organized and correctly formatted, with proper attribution provided for outside sources. The overall thought process in the paper should be logical and clear. Sentences should be clear and readable, not plagued by awkward phrasing and confusing structure. Paragraphs should be focused and coherent. There should be no grammatical mistakes. In short, the paper should be well-written.

¹Style guidelines for research papers in Professor Christ's economics courses will be handed out in class.

Course Schedule

This schedule is tentative. Changes may be announced in class and posted on the course website. The schedule on the course website will be the most up-to-date schedule for the course.

Reading references to Cabral (C) are chapter numbers and chapter sections. Reading references to Kwoka and White (KW) are page numbers and case numbers. Cases from previous editions of Kwoka and White are available in .pdf format at <http://www.oup.com/us/antitrustrevolution>.

		Topic	Readings
R	9/2	Nature and scope of IO	C, 1 – 3
F	9/3	Competition laws and policies	KW, 8 – 13; Rubinfeld
M	9/6	Monopoly and imperfect competition	C, 5.1 and 6.4
T	9/7	Competitive and contestable markets	C, 6.1 – 6.3, 6.5
R	9/9	Measurement of market power; SCP framework	C, 9
F	9/10	Vertical relations	C, 11; KW, 352 – 364
M	9/13	Entry deterrence and predation	C, 15.1 and 15.2
T	9/14	Case studies: Microsoft, NFL	KW, Case 20, 11 (4 th ed.)
R	9/16	Case studies: Sprint, American Air	KW, Case 8, 20 (4 th ed.)
F	9/17	Case studies: Toys R U., State Oil	KW, Cases 16 and 17
M	9/20	EXAM 1, Part 1	
T	9/21	EXAM 2, Part 2	
R	9/23	Strategic interaction and game theory, part 1	C, 4
F	9/24	Strategic interaction and game theory, part 2	C, 4
M	9/27	Oligopoly models, part 1	C, 7.1 – 7.4
T	9/28	Oligopoly models, part 2	C, 7.5
R	9/30	Collusion	C, 8
F	10/1	Mergers & Acquisitions	C, 15.3; KW, 13 – 29
M	10/4	Review	TBD
T	10/5	Case studies: Lysine, School milk	KW, Cases 11 & 12
R	10/7	Case studies: Coal, Cruise lines	KW, Cases 3 & 5
F	10/8	Case studies: Baby food, Office supplies	KW, Cases 6 & 7
M	10/11	EXAM 2, Part 1	
T	10/12	EXAM 2, Part 2	
M	10/18	Pricing with market power, part 1	C, 10.1 – 10.3
T	10/19	Pricing with market power, part 2	C, 10.4 – 10.5
R	10/21	Differentiation	C, 12
F	10/22	Advertising	C, 13
M	10/25	Market structure and welfare	C, 14
T	10/26	Technology and market structure	C, 16
R	10/28	Network externalities	C, 17; KW, 474 – 486
F	10/29	Regulation	C, 5.2 – 5.3
M	11/1	Regulation and deregulation	Handout
T	11/2	Review	TBD
R	11/4	Case Studies: LePages, GE-Honeywell	KW, Cases 10 & 15
F	11/5	Case Studies: Visa, AOL-Time Warner	KW, Cases 19 & 18 (4 th ed.)
M	11/8	Case Studies: Schering-Plough, Intel	KW, Cases 9 & 14 (4 th ed.)
T	11/9	Case Studies: Dentsply, Trinko	KW, Cases 14 & 18
R	11/11	EXAM 3, Part 1	
F	11/12	EXAM 3, Part 2	