

1.1: Introduction to Industrial Organization

Nature and scope of IO

- Behavior of firms with market power
- Strategic interaction of firms / performance of industries
- Public policy

What do we mean by the “monopoly problem”?

The usual case against monopolies is that they restrict output and thereby cause price to rise. But there are other key concepts:

- Consumer surplus
- Producer surplus
- Dead weight loss
- Productive inefficiency
- Allocative inefficiency

Cabral’s “Central Questions”

Is there market power? The mere existence of a dominant market position is not a sufficient condition for concluding that monopoly power exists.

How do firms acquire market power? Key concepts:

- Barriers to entry
- Economies of scale
- Minimum efficient scale

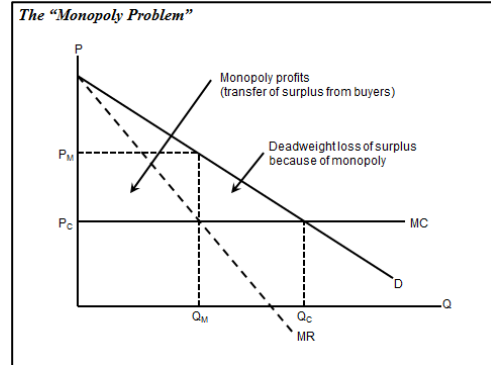
What are the implications of market power?

Theoretical presumption: Markets in which there is little or no market power are somehow superior to markets in which there is significant market power.

Policy application: “Attainment of a welfare optimum ... appears to require government interventions.” *If the benefits of government intervention are not cancelled out by its costs.*

What is the role of public policy?

Relevant exercises: Problem Set 0, exercises 1 through 10.



Cabral’s “Central Questions” (Luis Cabral, Introduction to Industrial Organization, 8 – 11)

- Is there market power?
- How do firms acquire market power?
- What are the implications of market power?
- If there is market power, is there a role for public policy in the marketplace? (What can (should?) public policy do?)

