Econ 8757: Industrial Organization

Fall 2001

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Office Hours: 1:00-1:50 p.m. on Mondays and 3:30-5:00 p.m. on Wednesdays.

If you need to talk to me at other times, you are also welcome.

Course Description: This is a graduate course in industrial organization. Industrial organization studies the functioning of markets. It is concerned with business behavior and strategy, as well as their implications for economic efficiency. It also studies the role of public policies in promoting efficiency. The topics that we intend to cover are listed below in the course schedule. The textbook is *The Theory of Industrial Organization* by Jean Tirole. I will indicate the required readings below and in my lectures. I have also selected some articles that I recommend you to read, and more will be added as we proceed. It will also be very useful if you read the relevant chapters in the Handbook of Industrial Organization (I think there is a copy in the department library.)

Grading: Grades are based on homework and class participation (30%); a take-home midterm exam (30%), and a term paper (40%). You are encouraged to form study groups to discuss homework and lecture materials, but not to discuss the take-home exam. The detailed requirements for the project will be announced later.

Note: Students with disabilities who may need academic accommodations should discuss options with me during the first two weeks of class.

The course materials are arranged by topics (the topics are listed below), and each topic is usually covered over several classes. When homework is assigned for a topic, it is usually due at the beginning of the first class for the next topic. You can start working on some problems in an assignment before I have finished the topic, but for some questions you may want to wait until I have completed lecturing on the topic.

A tentative course schedule is attached. There can be changes to this schedule during the semester, which will be announced in classes. It is your responsibility to update your information about the course according to announcements made in classes.

Course Schedule:

1. Introduction and the Theory of the Firm
   Tirole, 1-50.
   - Kreps, David, "Corporate culture and economic theory".
Homework 1. Read at least three papers and write a two-page comment/discussion on each of them. You can either read the papers listed here or find a paper of interest by yourself.

2. Monopoly Pricing
Tirole, 65-72; 134-162

Homework 2. Ex 1.1, 1.6, Ex. 3.2, 3.3, 3.6; read at least two papers and write a two-page comment/discussion on each of them.

3. Market Structure and Market Dominance

Homework 3: Read at least two papers and write a two-page comment/discussion on each of them.

4. Static Models of Oligopoly
Some of the topics to be discussed: nature of strategic interactions; incentives for mergers; product differentiation; oligopoly price discrimination.
Tirole, 209-226.
- Deneckere and Davidson, “Incentives to form coalitions with Bertrand competition,” RAND, 1985
- Shaked and Sutton, “Relaxing Price Competition through Product Differentiation”, RES
• Homes, Thomas J., “The Effects of Third-Degree Price Discrimination in Oligopoly”, AER (1989) 244-250.

Homework 4. Ex. 5.3, 5.4, 5.5, 5.6, 5.7; read at least three papers and write a two-page comment/discussion on each of them.

5. Dynamic Models of Oligopoly

• Tirole, 239-262.
• Chen, Y. “Paying Customers to Switch”, JEMS (1997), 877-897.

Homework 5. Ex. 6.4, 6.6; read at least two papers and write a two-page comment/discussion on each of them.

Exam

6. Search, Price Distribution, and Advertising

• Tirole, 289-295.

Homework 6:
Read the papers by Bagwell etc. and by Reinganum, write a two-page comment/discussion on each of them.

Term Paper Proposal Due.

7. Vertical Contractual Relations

• Tirole, 169-186.
• Chen, Y., “Oligopoly Price Discrimination and Resale Price Maintenance”, RAND, 1999, 441-

Homework 7. Ex. 4.1, 4.3, 4.6; read at least two papers and write a two-page comment/discussion on each of them.

8. Vertical Mergers and Vertical Organization of Industries

Homework 8. read at least two papers and write a two-page comment/discussion on each of them.

9. Other Possible Topics: Industrial Organization and International Trade, etc.

Presentation of Term Paper.
Abbreviations for journals:
AER: American Economic Review
EM: Econometrica
IJIO: International Journal of Industrial Organization
JB: Journal of Business
JEMS: Journal of Economics and Management Strategy
JIE: Journal of Industrial Economics
JLEO: Journal of Law, Economics, and Organization
JPE: Journal of Political Economy
QJE: Quarterly Journal of Economics
RAND (BELL): Rand (Bell) Journal of Economics