Course Description

Industrial Economics is the study of firm behavior. We will study how firm and industry structure affect the incentives, behavior and performance of firms. We will start with the simplest cases of perfect competition and monopoly. These cases serve as benchmarks and in addition help to illustrate certain fundamental concepts in their simplest form. From this starting point we will move to considering markets where (unlike monopoly) there is more than a single firm (or prospective firm,) and these firms (unlike perfect competition) have market power. This will involve the study of how firms interact with and react to each other. Consequently, I will introduce the fundamental concepts of game theory, which might informally be described as a theory for how economic agents will 'compete' with each other when they are aware of the fact that each agent's actions affect the decisions of every other agent. With these tools we will investigate such questions as: how might a firm prevent other firms from entering a market? How might firms collude to raise prices and increase their profits? What incentives do firms have to form mergers? What are the incentives and effects from research and development?

My emphasis will be on the theory of firm behavior. We will construct models and then use these models to analyze different situations. You will not be expected to derive any mathematical results. However, I will derive some, and I will simply state and explain others. You are expected to understand the models well enough to be able to intelligently discuss these results. Real world cases will be analyzed with regularity, but it will be in the context of the models that have been introduced.
Course Requirements
Final: scheduled Thursday May 8, 7:30 AM to 10:30 AM, worth 45 percent.
Midterm: scheduled (tentatively) wed March 5, worth 25 percent.
Homework: between four and eight problem sets, worth 20 percent.
Attendance: worth 10 percent.

Teaching approach and formula for success
My approach is to give homework which forces you to understand the material in the course. Answers to homework problems will generally be somewhere in either the lecture notes or the textbook. After I have graded the problem sets, I will review the answers and attempt to address any misunderstandings that I find in your answers. At least fifty percent of the test question will come directly from the homework. The rest of the test questions will essentially be questions that could have ended up on the homework, but for whatever reason did not.
This is the formula for success in my class: come to lecture, take good notes. I will be lecturing on a good deal of material that is not in the text. If you do not understand something, come and talk to me. Do the problem sets, this will force you to think about the material which is the only way to learn, I will then cover the correct answers, which should address any misunderstandings between us. If you have done this much then you should have no problem studying for the tests and getting a good grade.

Course Outline
I) Why we care about Industrial Economics (ch 1)
II) Perfect Competition and Monopoly (ch 2)
III) Public Policy Towards Private Enterprise (ch 3)
IV) Game Theory
V) The Dominant Firm (ch 4)
VI) Oligopoly (ch 5)
VII) Collusion in Oligopoly (ch 6)
VIII) Firm size and mergers (chs 8 and 9)
IX) Research and Development (ch 12)