Econ 8757: Industrial Organization

Spring 2006

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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 I 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.)

I think the ability to develop simple economic models is crucial for the success of an economist. Many students do not acquire good modeling skills even by the end of their graduate studies. One exercise I would like to do in this course is to have you learn/practice building simple economic models. In addition to the term paper, in the first half of the semester you will do one modeling exercise, for which you will formulate an economic problem and write a simple model to describe it.

Grading: Grades are based on homework and class participation (20%), a midterm exam (30%), and a term paper (50%). You are encouraged to form study groups to discuss homework and lecture materials.

- 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 Theories of Firms and Contracts

Tirole, 1-50.

Homework 1. Write two-page comments/discussions on two of the papers. 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 one paper and write a two-page comment/discussion on it.

3. 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
Chen, Y. and M. Riordan, “Price and Variaty in the Spokes Model”, Mimeo, 2005

Homework 3. Ex. 5.3, 5.4, 5.5, 5.6, 5.7; write two-page comments/discussions on two of the papers. This is the point for you to start your modeling exercise, to write a simple model in the next 2-3 weeks.

4. Dynamic Models of Oligopoly

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

Homework 4. Ex. 6.4, 6.6; write two-page comments/discussions on two of the papers.

5. Market Structure, Innovation, and Market Dominance

- Scotchmer, S., “Protecting early innovations: should second-generation products be patentable?” RAND, 1996, 322-331

Midterm Exam

6. Search, Price Distribution, and Advertising

Tirole, 289-295.
Homework 6:
Write two-page comments/discussions on two of the papers.

7. Vertical Contractual Relations

Tirole. 169-186.


Homework 7. Ex. 4.1, 4.3, 4.6; write two-page comments/discussions on two of the papers.

8. Vertical Mergers and Vertical Organization of Industries

• Chen and Riordan, “Vertical integration, exclusive dealing, and ex post cartelization”, 2003.

Homework 8. Write two-page comments/discussions on two of the papers.

9. Additional Topics: Industrial Organization and International Trade, etc

• Hanson, G. “Localization economics, vertical organization, and trade”. AER, 1996, 1266-1278.

Presentation of Term Papers

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
RES: Review of Economic Studies

*Students with disabilities who may need academic accommodations should discuss options with me during the first two weeks of class.
*The University of Colorado Policy on Sexual Harassment applies to all students, staff and faculty. Sexual harassment is unwelcome sexual attention. It can involve intimidation, threats, coercion, or promises or create an environment that is hostile or offensive. Any student, staff or faculty member who believes s/he has been sexually harassed should contact the Office of Sexual Harassment (OSH) at 303-492-2127 or the Office of Judicial Affairs at 303-492-5550.