

ECON5480 – INDUSTRIAL ORGANIZATION

2017 Spring

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TUE 11:30-14:15 at ELB 302

<http://teacher.econ.cuhk.edu.hk/~travisng/econ5480/>

I. COURSE DESCRIPTION

The course provides an overview of selected topics in industrial organization. It emphasizes theoretical IO, but students should bear in mind that empirical IO is equally important. All the theories derived in IO in particular, or in economics in general, should aim at deriving empirical implications testable with relevant data.

II. GRADING

MSc: A problem set (30%), and an exam (70%).

III. MATERIALS

Main text:

[1] **Tirole, Jean**, 1988. *The Theory of Industrial Organization*. Cambridge, MA: MIT Press.

Supplementary text:

[2] **Church, Jeffrey, and Roger Ware**. 1999. *Industrial Organization: A Strategic Approach*. Homewood, Ill: Irwin McGraw-Hill.

IV. CALENDAR OF THE COURSE

Wk1	10-Jan-2017	Intro and the theory of the firm	
Wk2	17-Jan-2017	The theory of the firm (Econ)	
Wk3	24-Jan-2017	The theory of the firm (Legal)	
Wk4	31-Jan-2017	<u>No Class</u>	<u>(Lunar New Year Vacation)</u>
Wk5	7-Feb-2017	Vertical Control	
Wk6	14-Feb-2017	Vertical Control	
Wk7	21-Feb-2017	Monopoly	
Wk8	28-Feb-2017	Pricing strategies	
Wk9	7-Mar-2017	Pricing strategies	
Wk10	14-Mar-2017	Non-pricing strategies	
Wk11	21-Mar-2017	Non-pricing strategies	
Wk12	28-Mar-2017	Product differentiation	<u>(Problem set distributed)</u>
Wk13	4-Apr-2017	<u>No Class</u>	<u>(Ching Ming Festival Vacation)</u>
Wk14	11-Apr-2017	Product differentiation	
Wk15	18-Apr-2017	<u>Final Exam</u>	<u>(Problem set due date)</u>

V. READING LIST

This list is not intended to be exhaustive. It highlights some of the important literature on the specific topics. Do explore deeper in the literature as you venture the topic for your own.

A. Theory of the firm

Tirole, Chapter 0.

Suggested Readings:

Coase, Ronald H. 1937. "The Nature of the Firm." *Economica*, 4(16): 386-405.

Hansmann, Henry B., Reinier Kraakman, and Richard Squire. 2006. "Law and the Rise of the Firm." *Harvard Law Review*, 119: 1333-1403.

Hansmann, Henry. 2012. "Ownership and Organizational Form." In *Handbook of Organizational Economics*, edited by Robert Gibbons, John Roberts, Chapter 22, 891-917

Fama, Eugene F, and Michael C. Jensen. 1983. "Separation of Ownership and Control." *Journal of Law and Economics*, 26(2): 301-25.

Fama, Eugene F. 1980. "Agency Problems and the Theory of the Firm." *Journal of Political Economy*, 88(2): 288-307.

Jensen, Michael C., and William H. Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics*, 3(4): 305-360.

Manne, Henry G. 1965. "Mergers and the Market for Corporate Control." *Journal of Political Economy*, 73(2): 110-120.

Grossman, Sanford J., and Oliver D. Hart. 1986. "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration." *Journal of Political Economy*, 94(4): 691-719.

Whinston, Michael D. 2003. "On the Transaction Cost Determinants of Vertical Integration." *Journal of Law, Economics and Organization*, 19(1): 1-23.

Alchian, Armen A, and Harold Demsetz. 1972. "Production, Information Costs, and Economic Organization." *American Economic Review*, 62(5): 777-95.

B. Vertical Control

Tirole, Chapter 4.

Suggested Readings:

Winter, Ralph A. 1993. "Vertical Control and Price versus Nonprice Competition." *Quarterly Journal of Economics*, 108(1): 61-76.

Mathewson, Frank, and Ralph Winter. 1998. "The Law and Economics of Resale Price Maintenance." *Review of Industrial Organization*, 13(1-2): 57-84.

Bernheim, B. Douglas, and Michael D. Whinston. 1998. "Exclusive Dealing." *Journal of Political Economy*, 106(1): 64-103.

- Mathewson, Frank, and Ralph Winter.** 1994. "Territorial Restrictions in Franchise Contracts." *Economic Inquiry*, 32(2): 181-92.
- Rey, Patrick, and Jean Tirole.** 2011. "Primer on Foreclosure." In *Handbook of Industrial Organization*, ed. Mark Armstrong and Robert Porter, Vol. 3, Chapter 7, Amsterdam, North-Holland.
- Klein, Benjamin, Robert G. Crawford, and Armen A. Alchian.** 1978. "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process." *Journal of Law & Economics*, 21(2): 297-326.
- Dennis W. Carlton, Joshua S. Gans and Michael Waldman.** 2010. "Why Tie a Product Consumers Do Not Use?" *American Economic Journal: Microeconomics*, 2(3): 85-105.

C. Monopoly

Tirole, Chapter 1

Suggested Readings:

- Coase, Ronald H.** 1972. "Durability and Monopoly." *Journal of Law & Economics*, 15(1): 143-49.
- Bulow, Jeremy I.** 1982. "Durable-Goods Monopolists." *Journal of Political Economy*, 90(2): 314-332.
- Maskin, Eric, and John Riley.** 1984. "Monopoly with Incomplete Information." *RAND Journal of Economics*, 15(2): 171-196..
- Demsetz, Harold.** 1968. "Why Regulate Utilities?" *Journal of Law and Economics*, 11(1): 55-65.

D. Pricing Strategies

Tirole, Chapter 3, 5, and 6.

Suggested Readings:

- McAfee, Preston R.** 2007. "Lecture on Pricing." Mimeo.
- Varian, Hal R.** 1985. "Price Discrimination and Social Welfare." *American Economic Review*, 75(4): 870-75.
- Varian, Hal R.** 1980. "A Model of Sales." *American Economic Review*, 70(4): 651-659.

E. Non-pricing Strategies

Tirole, Chapter 2, and 7.

Suggested Readings:

- Akerlof, George A.** 1970. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics*, 84(3): 488-500.
- Becker, Gary S., and Kevin M. Murphy.** 1993. "A Simple Theory of Advertising as a Good or Bad." *Quarterly Journal of Economics*, 108(4): 941-964.

- Karp, Larry S., and Jeffrey M. Perloff.** 1996. "The Optimal Suppression of a Low-Cost Technology by a Durable-Good Monopoly." *RAND Journal of Economics*, 27(2): 346-364.
- Mathewson, Frank, and Ralph A. Winter.** 1997. "Tying as a Response to Demand Uncertainty." *RAND Journal of Economics*, 28(3): 566-583.
- Salop, Steven C., and David T. Scheffman.** 1983. "Raising Rivals' Costs." *American Economic Review Papers and Proceedings*, 73(2): 267-271.
- Spence, A. Michael.** 1975. "Monopoly, Quality, and Regulation." *Bell Journal of Economics*, 6(2): 417-429.
- Spence, A. Michael.** 1973. "Job Market Signaling." *Quarterly Journal of Economics*, 87(3): 355-374.
- Hotelling, Harold.** 1929. "Stability in Competition." *Economic Journal*, 39(153): 41-57.
- Shaked, Avner, and John Sutton.** 1982. "Relaxing Price Competition through Product Differentiation." *Review of Economic Studies*, 49(1): 3-13.
- Salop, Steven C.** 1979. "Monopolistic Competition with Outside Goods." *Bell Journal of Economics*, 10(1): 141-156.
- Dixit, Avinash K., Joseph E. Stiglitz.** 1977. "Monopolistic Competition and Optimum Product Diversity." *American Economic Review*, 67(3): 297-308.
- Osborne, Martin J., and Carolyn Pitchik.** 1987. "Equilibrium in Hotelling's Model of Spatial Competition." *Econometrica*, 55(4): 911-22.