

# ECON5480 – INDUSTRIAL ORGANIZATION

2017 Fall

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FRI 08:30-11:15 at ELB 403

<http://teacher.econ.cuhk.edu.hk/~travisng/econ5480b>

## 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 (40%), and an exam (60%).

## 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

Learning Outcomes Having completed ECON5480, students are expected to:

1. Be familiar with the concepts concerning antitrust
2. Understand the seemingly contradictory judgments from antitrust across jurisdictions and over time
3. Be familiar with the core concepts of firm organizations

## V. CALENDAR OF THE COURSE

Wk1	Sep 15, 2017	Intro and the theory of the firm	
Wk2	Sep 22, 2017	The theory of the firm (Econ)	
Wk3	Sep 29, 2017	The theory of the firm (Legal)	
Wk4	Oct 6, 2017	Vertical Control	
Wk5	Oct 13, 2017	Vertical Control	
Wk6	Oct 20, 2017	Monopoly	<b><u>(Guest speaker: Dr. Lilla Csorgo<sup>1</sup>)</u></b>
Wk7	Oct 27, 2017	Pricing strategies	
Wk8	Nov 3, 2017	Pricing strategies	
Wk9	Nov 10, 2017	Non-pricing strategies	

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<sup>1</sup> [Head \(Economics and Policy\), Competition Commission \(Hong Kong\)](#)

Wk10	Nov 17, 2017	Non-pricing strategies	<u>(Problem set distributed)</u>
Wk11	Nov 24, 2017	Product differentiation	
Wk12	Dec 1, 2017	Entry Deterrence	
Wk13	Dec 8, 2017	<u>Final Exam</u>	<u>(Problem set due date)</u>

## VI. 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.

## **F. Entry Deterrence and Accommodation**

Tirole, Chapter 8.

- Aghion, Philippe, and Bolton, Patrick.** 1987. "Contracts as a Barrier to Entry." *American Economic Review*, 77(3): 388-401.
- Dixit, Avinash.** 1980. "The Role of Investment in Entry-Deterrence." *Economic Journal*, 90(357): 95-106.
- Bulow, Jeremy I., John D. Geanakoplos, and Paul D. Klemperer.** 1985. "Multimarket Oligopoly: Strategic Substitutes and Complements." *Journal of Political Economy*, 93(3): 488-511.
- Fudenberg, Drew, and Jean Tirole.** 1984. "The Fat-Cat Effect, the Puppy-Dog Ploy, and the Lean and Hungry Look." *American Economic Review*, 74(2): 361-366.
- Bernheim, B. Douglas.** 1984. "Strategic Deterrence of Sequential Entry into an Industry." *RAND Journal of Economics*, 15(1): 1-11.
- Salop, Steven C., and David T. Scheffman.** 1983. "Raising Rivals' Costs." *American Economic Review*, 73(2): 267-71.
- Cabral, Luis M. B., and Michael H. Riordan.** 1994. "The Learning Curve, Market Dominance, and Predatory Pricing." *Econometrica*, 62(5): 1115-1140.