

ECON5481 - INDUSTRIAL ORGANIZATION

2022 Spring

Thur 08:30-11:15 CKB109

<http://teacher.econ.cuhk.edu.hk/~travisng/econ5481>

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

A problem set (40%), quizzes (10%), and an exam (50%).

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. 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 time
3. Be familiar with the core concepts of firm organizations

V. CALENDAR OF THE COURSE

| Week | Date | Lecture | Assignment |
|------|---------------|----------------------------------|----------------|
| 1 | Jan 13 (Thur) | Intro and the theory of the firm | |
| 2 | Jan 20 (Thur) | The theory of the firm (Econ) | |
| 3 | Jan 27 (Thur) | The theory of the firm (Legal) | |
| 4 | Feb 3 (Thur) | Holiday (No class) | |
| 5 | Feb 10 (Thur) | Vertical Control | |
| 6 | Feb 17 (Thur) | Vertical Control | |
| 7 | Feb 24 (Thur) | Monopoly | |
| 8 | Mar 3 (Thur) | Pricing strategies | |
| 9 | Mar 10 (Thur) | Pricing strategies | |
| 10 | Mar 18 (Thur) | Non-pricing strategies | |
| 11 | Mar 24 (Thur) | Non-pricing strategies | |
| 12 | Mar 31 (Thur) | Product differentiation | PS distributed |
| 13 | Apr 7 (Thur) | Product differentiation | |
| 14 | Apr 14 (Thur) | Entry Deterrence | |
| 15 | Apr 21 (Thur) | Exam | PS due date |

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.

VII. ACADEMIC HONESTY

Attention is drawn to University policy and regulations on honesty in academic work to the disciplinary guidelines and procedures applicable to breaches of such policy regulations. Details may be found at <http://www.cuhk.edu.hk/policy/academichonesty/> .