

EEP 142 – Course Syllabus

Industrial Organization with Applications to Agriculture & Natural Resources

Spring Semester-

Sofia Villas-Boas

Course Readings:

Lecture notes are available online before each lecture, for each lecture. Please print them and bring the handouts to class.

Lecture Notes are mainly based on the course main textbook "*Modern Industrial Organization*, Dennis W. Carlton and Jeffrey Perloff, 3rd Edition, Reading, MA: Addison-Wesley, 2000." Copy of the textbook is available in the Moffitt Library. [C&P]

Optional Reading: *Introduction to Industrial Organization*, Luis M. B. Cabral, The MIT Press, Cambridge, MA, 2000.

Course Requirements:

4 Problem sets 20%

Group project & class participation 20%

Midterm, in class 20% (optional)

Final Exam 60% (or 40% if midterm counts)

Course Weekly Description:

Week 1 (2 lectures):

Lecture 1. Getting Started

Introduction

Review of Theory of the Firm and Cost Concepts

Applications: Electricity generation, farmers.

Readings: Lecture Notes. C&P, chapters 1 and 2.

Lecture 2. More review

Demand curve, elasticity

Golden Pricing Rule

Competition Revisited

Monopolies

Welfare Loss

Applications: farmers, natural monopolies

Readings: Lecture Notes. C&P, chapters 3 and 4.

Week 2 (2 lectures):

Lecture 3. Entry, Equilibrium

Entry and exit decisions

Short and long run

Competitive and monopolistic cases

Motivation for material for next lecture on "Monopsonies and Dominant Firms"

Aggregating demand curves

Applications and Cases: Entering into bottled tea market

Readings: Lecture Notes. C&P, chapters 3 and 4.

Lecture 4. Monopsony, Dominant Firm

Dominant Firm and competitive fringe

Creating figure 4.6

Monopsony

Applications: Monopsony power in tomato harvesting

Readings: Lecture Notes. C&P, chapter 4.

Week 3. Problem set 1, Cartels

Lecture 5. Problem set 1.

In class discussion of problem set 1, which is due before lecture

Lecture 6. Cartels

Motivation

Collusion experiment

Antitrust

Cheating

Deadweight-loss

Applications: OPEC and CIPEC

Readings: Lecture notes. C & P, chapter 5.

Week 4. Non-cooperative Oligopolies and Game Theory

Lecture 7. Game Theory, Cournot Oligopoly

Game Theory

Cournot Oligopoly

Application: Oil production by Russia and OPEC

Readings: Lecture notes. C&P, chapter 6.

Lecture 8. Oligopoly Models

Cournot model

Stackelberg model

Bertrand model

Escaping Bertrand trap: product differentiation
Best response functions
Readings: Lecture notes. C&P, chapter 6.

Week 5. Monopolistic Competition

Lecture 9. Monopolistic Competition

Monopolistic Competition
Chamberlin's model
Classroom experiment: Product differentiation
Readings: Lecture notes. C&P, chapter 7.

Lecture 10. Problem set 2

In class discussion of problem set 2, which is due before lecture

Week 6. Industry SCP and introduction to Price Discrimination

Lecture 11. Structure Conduct Performance (SCP)

Brief history of industrial organization
SCP
Identification of market power
Application: Ready to eat Cereals
Readings: Lecture notes. C&P, chapter 8.

Lecture 12. Price Discrimination I

Price discrimination
Application: Alcoa
Robinson-Patman Act
Enforcement, secondary line PD: Gasoline, McCormick Spice
Enforcement, primary line PD: Utah-Pie
Readings: Lecture notes. C&P, chapter 9.

Week 7. Sophisticated (Pricing) Strategies

Lecture 13. Non-linear pricing

Two-part tariffs
Readings: Lecture notes. C&P, chapter 10.

Lecture 14. Price Discrimination (cont.)

Agricultural marketing Orders, Welfare

Tie-in sales

Application: Tie-in as a method of price discrimination

Application/Enforcement, secondary line PD: Gasoline, McCormick Spice

Application/Enforcement, primary line PD: Utah-Pie

Readings: Lecture notes. C&P, chapters 9 and 10.

Week 8. Problem set and Review for Midterm

Lecture 15. Problem Set 3

In class discussion of problem set 3, which is due before lecture

Lecture 16. Practice for Midterm, Review Session, Questions, concerns...

Week 9. Midterm

Lecture 17. Midterm in class, then Spring-break next week.

Week 10. Strategic behavior

Lecture 18. Cooperative and non-cooperative strategic behavior

Cooperative strategic behavior / practices facilitating collusion

Case: FTC vs. Ethyl, duPont, Nalco and PPG

Application: Open Competition Plan – lumber mills

Application: Joint Executive Committee railroad cartel.

Non-cooperative strategic behavior

Commitment

Predatory Pricing

Application: American Tobacco Trust

Predation and Acquisition of Rivals

Limit Pricing

Readings: Lecture notes. C&P chapter 11 and 19.

Lecture 19. Strategic behavior, cont.

Raising rivals' costs

Network effects as a theoretical background for Microsoft case
Microsoft legal case

Readings: Lecture notes. C&P chapter 11. Microsoft case chapter 19 and web-resources.

Week 11. Theory of the Firm

Lecture 20. Boundaries of the firm

Vertical Integration

Make versus buy

Long-term contracts and relationship specific investments

Transaction costs theory

Agency theory (Moral hazard)

Application: Joskow, 1987, contract length between coal suppliers & electric utilities

Reading: Lecture notes. C&P chapter 2, Joskow, AER 1987.

Lecture 21. Vertical Integration

Double marginalization

Downstream and upstream market power

Foreclosure

Reading: Lecture notes. C&P chapter 2 and 12.

Week 12. Rap-up of Vertical Issues, Information

Lecture 22. Vertical Restraints

Vertical Restraints:

Resale Price Maintenance, Two Part tariffs, Revenue sharing, Exclusive dealing

Application: Franchising in food industry

Law and Vertical Integration and Restraints.

Reading: Lecture notes. C&P chapter 2, 12 and 19.

Lecture 23. Information

Experience goods

Adverse Selection Lemons (not edible) problem

Search costs Tourists-Natives model

Noisy monopolist

Reading: Lecture notes. C&P chapter 13.

Week 13. Information, Advertising, Merger Analysis

Lecture 24. Mitigating Adverse Selection, Search Costs and the Internet

Information and Quality

Application: Information and Quality provision Restaurant hygiene Grade cards

Application: The internet Search costs and price levels, menu costs, price dispersion

Advertising

Application: General Advertising: Got milk?

Application: Advertising as a barrier to entry

Reading: Lecture Notes. Leslie and Jin, 2003. C&P chapter 14.

Lecture 25. Merger Analysis

Antitrust

Regulation and Deregulation

Collusion and Horizontal Mergers Merger analysis

US horizontal merger guidelines

Guidelines on vertical restraints Application:

Mergers in vertically separated milk markets

Antitrust Laws and Policy Cases: Price supports in agriculture Cross-subsidization

Applications: Electricity Deregulation, Enron

Reading: Lecture notes. Web-resource on Cases, like Enron. US Merger Guidelines, C&P chapters 19 and 20.

Week 14. Durability, Patents and Technological Change

Lecture 26. Durability, R&D

Durable Good

Coase's Conjecture

Rent versus sell

Applications: United Shoe case Alcoa, Aluminum Company of America, De Beers, diamonds cartel

Patents and Technological Change

Patent length, market structure and Research and Development (R&D)

Readings: Lecture notes. C&P chapters 15 and 16.

Lecture 27. Problem set 4

In class discussion of problem set 4, which is due before lecture

Week 15. Student Presentations of Group Projects