

# EEP 142 – Course Syllabus

## Industrial Organization with Applications to Agriculture & Natural Resources

Spring Semester-

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### 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:

3 Problem sets 20%

Group project & class participation 20%

Midterm, in class 20% (optional)

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

### Course Description tentative:

#### 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.*

### 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.*

### Lecture 5. Cartels

Motivation

Collusion experiment

Antitrust

Cheating

Deadweight-loss

Applications: OPEC and CIPEC

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

### Lecture 6. Movie and more Cartel discussion

### 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.*

### Lecture 9. Monopolistic Competition

Monopolistic Competition

Chamberlin's model

Classroom experiment: Product differentiation

*Readings: Lecture notes. C&P, chapter 7.*

Lecture 10. continuing previous lecture.

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.*

Discuss NYT article

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.*

Lecture 15. Rap up, Review Session, Questions, concerns...

Lecture 16, 17. Spring break during this week, no classes.

Don't forget to email me the group requirement , a one page description of your group project with group members, to sberto@are.berkeley.edu.

**Midterm**

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.*

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

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 22. Joskow Paper discussion

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.*

Lecture 24. TRI, Information

Do State Pollution Rankings Affect Facility Emissions?

Evidence From The U.S. Toxic Release Inventory

Lecture 25. 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 26. 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.*

Lecture 27. 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 28 and 29 rap up