EEP 142 – Course Syllabus

Industrial Organization with Applications to Agriculture &Natural Resources
We meet Tuesdays and Thursdays 2-3:30pm in 141 McCone

Please see b-space for all info. Please check announcements weekly.

My contact is sberto@berkeley.edu

My office hours Thursday 4-5:30 226 Giannini Hall or by appointment (please email me)

Graders office hours are Mondays 2-4 **in** 228B **Giannini Hall (Gianmarco Leon -** gianmarco@berkeley.edu)

Some old class materials, info, and previous years' cases and reports available at:
http://www.are.berkeley.edu/~sberto/eep142.html

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:

2 Problem sets 20%
Quiz, Group project/ class participation 20%
Midterm 20%
Final Exam 40%

Former Students – EEP Alumns presentation- during the semester we will listen to two EEP alumns and former students on how the major and this class enabled them to perform their current consulting work

Course Description tentative/ dates may change if we need time on several lectures and if pace is slower/ faster , but the order is this one:

For quiz. Review of Theory of the Firm and Cost Concepts, Demand, Welfare, Entry Exit
Introduction
Review of Theory of the Firm and Cost Concepts
Readings: Lecture Notes. C&P, chapters 1 and 2.
Demand curve, elasticity
Golden Pricing Rule
Competition Revisited
Monopolies
Welfare Loss
Entry and exit decisions
Short and long run
Readings: Lecture Notes. C&P, chapters 3 and 4.

Lecture 1 Introductory Lecture **Jan 17**
Take home quiz distributed and due Lecture 3 (January 24)
Course logistics

Lecture 2. Competition, Monopoly, Monopsony, Dominant Firm **January 19**
Competitive and monopolistic cases
Applications: Electricity generation, farmers.
Applications: farmers, natural monopolies
Motivation for material for next lecture on "Monopsonies and Dominant Firms"
Aggregating demand curves
Dominant Firm and competitive fringe
Creating figure 4.6
Monopsony
Applications: Monopsony power in tomato harvesting
Readings: Lecture Notes. C&P, chapter 3 an 4.

Lecture 3. Cartels **January 24**
Motivation
Collusion experiment
Antitrust
Cheating
Deadweight-loss
Applications: OPEC and CIPEC
Readings: Lecture notes. C & P, chapter 5.

Lecture 4. Movie and more Cartel discussion **January 26**

Lecture 5. Game Theory, Cournot Oligopoly **January 31**

Game Theory
Cournot Oligopoly
Application: Oil production by Russia and OPEC
Readings: Lecture notes. C&P, chapter 6.

Lecture 6. Oligopoly Models **February 2**
Cournot model
Stackelberg model
Bertrand model
Experiment in class on Bertrand Trap
Escaping Bertrand trap: product differentiation
Best response functions
Readings: Lecture notes. C&P, chapter 6.

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

Lecture 8. continuing previous lecture. Olive oil experiment and **February 14**
1. illustration of stating hypothesis and analyzing data, Sideways effects in Chicago –
2. implement olive oil experiment and survey answering, and installing stata
3. stata primer
4. take away from Lecture 10

Stata empirical analysis – please bring your laptops

Lecture 9 . analysis of experiment **February 16**
1. stata and analyze your data from your survey responses
2. and also go over last years' responses and findings. If time (are in notes)
3. We will discuss the ready to eat cereal case briefly
4. Also Sam Holmberg (Freeman Sullivan & Co), an EEP alumn will talk to the class

Lecture 10. Price Discrimination I **February 21**
Price discrimination
Application: Alcoa
Robinson-Patman Act
Enforcement, secondary line PD: Gasoline, McCormick Spice
Readings: Lecture notes. C&P, chapter 9.

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

Lecture 11. Non-linear pricing **February 23**
Two-part tariffs

Readings: Lecture notes. C&P, chapter 10. Enforcement, primary line PD: Utah-Pie

Lecture 12. Price Discrimination (cont.) **February 28**
Agricultural marketing Orders, Welfare
Application/Enforcement, wholesale price discrimination: Gasoline

Lecture 13. Boundaries of the Firm **March 1**
4- Project on Price Discrimination Enforcement, primary line PD: Utah-Pie
Vertical Organization of firms
Vertical Integration
Make versus buy
Long-term contracts and relationship specific investments
Transaction costs theory
Agency theory (Moral hazard)
9 - Application: Joskow, 1987, contract length between coal suppliers & electric utilities
Reading: Lecture notes. C&P chapter 2, 12, and 19, Joskow, AER 1987.

Midterm- take home due March TO BE ADDED

Lecture 14, Environ Regulation & Arbitrage in Gasoline Markets, Information **March 6**
Effects of Environmental Content Regulation on Gasoline Prices and Price Volatility
Link to JEEM article: Reformulating competition Gasoline content regulation and wholesale gasoline prices Jennifer Brown, Justine Hastings, Erin T. Mansur and Sofia B. Villas-Boas :
http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6WJ6-4PBDPVH-1&_user=4420&_coverDate=01%2F31%2F2008&_rdoc=1&_fmt=high&_orig=search&_sort=d&_docanchor=&view=c&_acct=C000059607&_version=1&_urlVersion=0&_userid=4420&md5=0fb3f3a2260c4c00e792062b83ee95cd

Lecture 15.Empirical Research on Asymmetric Information. **March 8**
Experience goods
Adverse Selection Lemons (not edible) problem
Search costs Tourists-Natives model
Information and Quality
Reading: Lecture notes 16. C&P chapter 13.
12- Restaurant Hygiene grade cards regulation - **Lecture 15**
11- Carbon Print, Pollution Big Top Ten - Lecture 17
Application: Do State Pollution Rankings Affect Facility Emissions?
Evidence From The U.S. Toxic Release Inventory

Application: Information and Quality provision Restaurant hygiene Grade cards
Application: The internet Search costs and price levels, menu costs, price dispersion
Reading: Lecture Notes 17 and . Leslie and Jin, 2003. Scorse, 2003.

Lecture 16. Franchising, Revenue Sharing, and Strategic Behavior **March 13**
Finish advertising decisions and quantity decision example from lecture 17
Group projects:10 - Franchising Lecture 16,
Case 1. Franchise

Case 2. Do franchises have different incentives than company owned chain restaurants in providing higiene quality?

Stata empirical analysis – please bring your laptops

Do mandatory cities have the same improvements in quality as voluntary cities?

Lecture 17. Strategic behavior **March 15**
Predatory Pricing , Predation and Acquisition of Rivals , Limit Pricing , Raising rivals' costs ,
Case 3: Costco gasoline below cost sale case
Reading: Lecture Notes 18. Lecture notes 19, strategic behavior
Network effects as a theoretical background for Microsoft case , Commitment

Lecture 18. Evidence on strategic behavior (cont from end last lecture) **March 20**
2 Group Project Presentations. See below
8 - Microsoft , **Lecture 18**,
Predatory Pricing
Application: American Tobacco Trust
Predation and Acquisition of Rivals , Limit Pricing
Application/Enforcement, primary line PD: Utah-Pie already presented
Application: Network effects as a theoretical background for Microsoft case
Application: Open Competition Plan – lumber mills
Application: Joint Executive Committee railroad cartel.
6 - Joint Executive Committee Cartel - Lecture 18
7 - Predation ATT Tobacco - **Lecture 18**
Readings: Lecture notes 19 C&P chapter 11. Microsoft case chapter 19 and web-resources.

Lecture 19. Durability, R&D **March 22**
If needed rap up strategic behavior notes.
17 - De beers **Lecture 19**,
24- Monsanto, **Lecture 19**
Durable Good, Coase's Conjecture, Rent versus sell
Applications:De Beers, diamonds cartel
Patents and Technological Change
Patent length, market structure and Research and Development (R&D)
Readings: Lecture notes 20. C&P chapters 15 and 16.

Spring Break – March 26 to 30

Lecture 20. Advertising **April 3**

Group projects:

13 - General Advertising, - Lecture 20,.

14- General Advertising Got Milk - Lecture 20,

Advertising

Application: General Advertising: Got milk?

Application: Advertising as a barrier to entry

Application: Environmental Sustainability Practices Labeling in Seafood and Consumer Responses.

Stata empirical analysis – please bring your laptops

Readings: Lecture notes 21 and Fishwise Write up.

Lect 21, How to evaluate Effects of Regulation for pollution reduction?/ Appeals to Spare the Air Effects **April 5**

Group project:19 – Clean Air Act and the value of clean Air

Does Air Quality Matter, Evidence from the Housing Market" Kenneth Chay &Michael Greenstone

Spare the Air Day, Steven Sexton.

Also Taj Walton (Altman Vilandrie), an EEP alumn will talk to the class

Lecture notes 22

Lecture 22. Regulation, Deregulation **April 10**

Group projects:

15 - Regulation and the effects of the DOJ Leniency Program - Lecture 21,

16 - Enron - Lecture 21,

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 notes 22 and Nate Miller AER paper.

Lecture 23. Biofuels **April 12**

Group projects:

18 - Introduction to Biofuel - The Demand for Ethanol as a Gasoline Substitute (Soren Anderson, 2011)

21 - Biofuels - Lecture 23,
Lecture notes 24.

Lecture 24. Biofuels, Food Prices and Economic Impacts **April 17**

22 - Food Prices in Ag Markets –developed countries Lecture 24

23 - Food Prices - show how high commodity prices get passed through into retail prices
Berck, Leibtag, Solis and Villas-Boas
- show how local brands pass through price increases differently than non local brands (Spalding and Villas-Boas)

Lecture 25. **MORE Stata – April 19**

Measuring effects of sustainability labeling on Demand

Last day of teaching in semester is April 24 Tuesday

Final exam will be emailed to you today. due date to be announced later.