

NORTHEASTERN UNIVERSITY
Department of Economics
Spring 2006

Industry Economics and Antitrust

Prof. John Kwoka

Course Description: This course covers major topics in the field of industrial organization economics together with major issues in antitrust/competition policy. More specifically, it investigates determinants of industry concentration, strategies that firms use to maximize profit, the effects of these factors on market efficiency and other objectives, and the role of antitrust policy in restraining market power. These issues are developed utilizing a combination of microeconomic theory, game theory, statistical evidence, and case studies.

Readings: There are two required textbooks for this course:

Church and Ware, *Industrial Organization: A Strategic Approach* (CW)

Kwoka and White, *The Antitrust Revolution* (4th ed.) (KW)

Readings designated as coming from the third edition of Kwoka and White (“3/e”) are available online at: www.oup.com/us/antitrustrevolution. Most outside readings are available for purchase from NU Reprographics. A few additional ones will be provided to you directly.

Classes: Class time will be devoted to the more important and the more difficult material, but you will be responsible for everything on the reading list. The approximate number of class periods for each section is noted in parentheses on the reading list below. We will, however, proceed from one section to the next as quickly as possible.

Course Requirements: The course requirements are as follows:

(1) There are two midterm exams plus a final. The first exam will cover material in Sections 1-5 of the reading list and be held on Feb. 14. The second covers the additional material through Section 9 and will take place on March 24. The final will cover the entire course but be weighted toward material in Part C. Each midterm counts 25% of your overall grade; the final is 35%.

(2) Several homework problem sets. These will not be graded.

(3) A short paper that ties in with material in the Antitrust Part C and which counts for the remaining 15% of your grade. For this paper, you are to select an antitrust case from Kwoka-White (any edition) other than those on the reading list. Read the chapter carefully, and then write a five double-spaced page paper that addresses three issues:

(a) a very brief background to the case (no more than one page)

(b) an outline of one or two of the key issues raised in the case, drawing on your understanding of industrial economics as well as what is set forth in the case study (three pages)

(c) a proposal for a further study that would help determine whether the case was decided correctly. That is, describe a logical test of a key issue or a study of what resulted from the actual decision. Discuss the necessary data to undertake your test (I will give you some latitude here, but do not just assume the availability of implausible data), and explain how this will cast light on the key issue (one page).

Blackboard: I will make regular use of Blackboard for posting materials and for communicating messages to you. You are responsible for signing onto Blackboard for this course and for regularly checking it.

Contact information:

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READINGS

A. INTRODUCTION

1. Industrial Economics and Performance (1.5)

CW, ch. 1

ch. 2

ch. 4.4-4.5

Cowling and Mueller, "The Social Costs of Monopoly," *Economic Journal*, 1978

Kwoka, "The Role of Competition in Natural Monopoly Industries: Costs, Public Ownership, and Regulation," NU Dept. of Economics Working Paper 06-001

2. Oligopoly and Concentration (1.5)

CW, ch. 3.1-3.2.3

ch. 4.1

Scherer and Ross, *Industrial Market Structure and Economic Performance* (3rd ed.) ch. 4, pp. 97-122, 138-141

Shapiro and Varian, *Information Rules: A Strategic Guide to the Network Economy*, pp. 19-32

B. OLIGOPOLY

3. Classical Theory (2)

CW, ch. 8.1-8.2.2, 8.3-8.3.2, 8.4-8.5

KW, Case 4, Pelcovits on MCI-Sprint

4. Game Theory and Dynamics (2.5)

CW, ch. 7, pp. 211-219

ch. 9

ch. 10.1-10.4.1, 10.5

Hofstadter, "Metamagical Themas," *Scientific American*, 1983

Gibbons, *Journal of Economic Perspectives*, 1997, pp. 127-137

5. Cartels (1.5)

Carlton and Perloff, *Modern Industrial Organization*, 3/e, ch. 5, "Cartels"

KW, Case 10, Connor on the lysine cartel

Kwoka, "The Price Effects of Bidding Conspiracies: Evidence from Real Estate Auction 'Knockouts'," *Antitrust Bulletin*, 1995

6. Empirical Evidence (2)

CW, ch. 12, pp. 423-432, 440-452

Martin, *Advanced Industrial Economics* (2nd ed.), ch. 5, pp. 117-130, 134-141

ch. 6, pp. 141-147

Winston and Morrison, "The Dynamics of Airline Pricing and Competition," *American Economic Review*, 1990

B. EXTENSIONS

7. Entry and Entry Deterrence (2.5)

CW, ch. 4.2

ch. 13.1, 13.3, 13.4

ch. 14, pp. 485-494, 498-507, 513-517

Salop, "Strategic Entry Deterrence," *American Economic Review*, 1979

Smiley, "Empirical Evidence on Strategic Entry Deterrence," *International Journal of Industrial Organization*, 1988

8. Advertising (1.5)

Cabral, *Introduction to Industrial Organization*, ch. 13

CW, ch. 17

Martin, pp. 276-280

Weiss et al, "The Size of Selling Costs," *Review of Economics and Statistics*, 1983

Kwoka, "Advertising and the Price and Quality of Optometric Services," *American Economic Review*, 1984

9. Price Discrimination (1.5)

CW, ch. 5.1-5.4.3

Borenstein, "Selling Costs and Switching Costs: Explaining Retail Gasoline Margins," *Rand Journal of Economics*, Autumn 1991

KW, Case12, Elzinga and Mills on BNPDAL

10. Networks (1.5)

Kwoka, "Networks and Natural Monopoly," in *Network Access, Regulation, and Antitrust*, pp. 17-27

Cabral, ch. 17

KW, Case18, Faulhaber on AOL-TimeWarner

C. ANTITRUST

11. Introduction (.5)

Kwoka-White, pp. 1-5
CW, Appendix

12. Collusion and Cooperation (1.5)

CW, ch. 10.6-10.7
Tirole, *The Theory of Industrial Organization*, pp. 330-332
Kwoka and White, pp. 172-180
Case 9, Borenstein on Airline Tariff Publishing
Kwoka and White, 3/e: Hay on Ethyl, pp. 190-200

13. Mergers (2.5)

CW, ch. 23
Ordover and Willig, "Economics and the 1992 Merger Guidelines," *Review of Industrial Organization*, 1993
Kwoka and White, pp. 8-25
Case 2, Dalkir and Warren-Boulton on Staples
Case 6, Baker on Heinz-Beech-Nut
Kwoka and White, 3/e: White on Coke-Dr Pepper
Sibley and Heyer, "Selected Economic Analysis at the Antitrust Division," *Review of Industrial Organization*, 2003, pp. 96-108

14. Exclusion and Predation (2.5)

CW, ch. 20.1-20.2
ch. 21, pp. 643-650, 653-662
ch. 22.3
Kwoka and White, 3/e: Burnett on Liggett
Kwoka and White, pp. 180-186, 414-425
Case 20, Edlin and Farrell on American Airlines
Case 19, Rubinfeld on Microsoft
Katz, "Recent Antitrust Enforcement Actions by the U.S. Department of Justice," *Review of Industrial Organization*, 2002, pp. 387-393

Not required: Articles on Microsoft by Gilbert and Katz, by Klein, and by Whinston,
Journal of Economic Perspectives, Spring 2001