

NORTHEASTERN UNIVERSITY
Department of Economics

ECNG271
Industrial Organization and Antitrust
Fall 2007

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Lectures: M/Th 4:00 PM-5:30 PM, Ryder 154
Office hours: Tuesday 10:30am – 12:30pm, Wednesday 10:30-11:30am, and by appointment

Course Objective: This course introduces major topics of industrial economics and antitrust policy. We analyze industry market structure and firm strategic behaviors, and their effects on economic performance. We also study the application of IO theory in antitrust. This course draws on microeconomic theory (game theory in particular), empirical evidence, and case studies.

Textbooks:

Required:

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

Kwoka and White, *The Antitrust Revolution* (4th ed.) (KW) Available in the bookstore

Optional:

Carlton and Perloff, *Modern Industrial Organization*, 3rd edition. We will cover a couple of chapters from this book.

Course Assessment:

A midterm exam (25%), a final exam (50%), homework (10%), and case presentation and writing (15%).

Homework:

- You will be given about 5 problem sets. You should try to do the homework independently. Even if you choose to do the homework by team, *you still need to write the homework in your own words*. For those problems that ask you to write about a case or example, you must write independently.
- The textbook of CW has many interesting examples and case studies. You should read as many as possible. You may forget the theory after a while, but you will remember the stories.

Case Presentation

- You will be asked to form groups of two to present antitrust cases from Kwoka and White 4th edition. Depending on the number of students in this class, each student may be involved in the presentation of one or two case studies.
- The presentation consists of three segments: (1) a brief background to the case, (2) the plaintiff's case, (3) the firm's defense. If possible, one of you should act as the plaintiff, and the other as the defendant. Either of you could present the background to the case. Your presentation together should be about 30 minutes. The rest of the class and I will serve as the judge.

- *If you are not a presenter of a case, you must ask at least two non-trivial (and hopefully penetrating) questions! Therefore, you should read the case carefully before the scheduled presentation as well.*

Case Writing:

- Write a short paper, based on a case not covered or presented in class
- You should read other articles related to the case to gain new perspectives.
- The paper should be no longer than 5 double-spaced pages long.
- Address the following issues at the minimum:
 - What is the key fact to the case (no more than one page)?
 - What are the key economic issues raised in the case?
 - What do you think of the court’s conclusion?

Blackboard: Some course materials (journal articles etc) will be posted on the blackboard. Case studies from the third edition of Kwoka and White (“3/e”) will be made available through the Blackboard as well.

Readings

1. Introduction

CW, chapter 1
 CW, chapter 2 (2.1 – 2.4.2)
 CW, chapter 4 (4.4-4.5)

2. Theory of the Firm

CW, chapter 3
 Joskow, P. 1987. “Contract Duration and Relationship-Specific Investment: Empirical Evidence from Coal Markets.” *American Economic Review* 77(1): 168-185.

3. Monopoly

CW, chapter 4 (4.1, 4.3)
 CW, chapter 6 (6.1 only)

4. Price and Quality Discrimination

CW, chapter 5: 5.1-5.4.3
 CW, chapter 6 (6.1.2, quality discrimination)

5. Game Theory I and Classical Models of Oligopoly

CW, chapter 7 (optional, depends on your knowledge of game theory)
 CW, chapter 8.1-8.2.2, 8.3-8.3.2

6. Game Theory II and Dynamic Models of Oligopoly

CW, chapter 9
 CW, chapter 10 (10.3-10.4)

7. **Antitrust I: Collusion and Cartel**
 CW, chapter 10.5-10.7
 KW, pp. 172-180
 KW, Case 9, Borenstein on Airline Tariff Publishing
 KW, 3/e: Case 7, Hay on Ethyl
 Albak, S, P. Mollaard, and P. Overgaard. 1997. "Government-Assisted Oligopoly Coordination? A Concrete Case." *Journal of Industrial Economics* 45: 429-444.

8. **Identifying and Measuring Market Power**
 CW, chapter 12
 Bresnahan, T. 1982. "The Oligopoly Solution Concept is Identified," *Economics Letters*, 87-92.

9. **Information**
 Carlton and Perloff, chapter 13
 CW, Chapter 6.2

10. **Advertising**
 CW, chapter 17
 Carlton and Perloff, chapter 14
 Kwoka, "Advertising and the Price and Quality of Optometric Services," *American Economic Review*, 1984

11. **Entry and Entry Deterrence**
 CW, chapter 13.1, 13.3, 13.4; chapter 14, pp. 485-494, 498-507, 513-517

12. **Antitrust II: Market Definition**
 KW, Introduction pp. 1-5;
 CW, Chapter 19;
 CW, Appendix "The Legal Framework of Antitrust Enforcement"

13. **Antitrust III: Vertical Relationships**
 CW, Chapter 22
 Carlton and Perloff, Chapter 12
 KW, case 13, Bamberger on *State Oil v. Khan (1997)*
 KW, case 15, Scherer on Toys "R" Us

14. **Antitrust IV: Mergers**
 CW, chapter 23
 KW, "The Economic and Legal Context", pp. 8-25
 KW, Case 2, Dalkir and Warren-Boulton on Staples
 KW, Case 6, Baker on Heinz-Beech-Nut
 KW, 2/e: White on Coke-Dr Pepper

 Sibley and Heyer, "Selected Economic Analysis at the Antitrust Division," *Review of Industrial Organization*, 2003, pp. 96-108

15. Antitrust V: Exclusion and Predation (2.5)

CW, chapter 20.1-20.2; chapter 21, pp. 643-650, 653-662; chapter 22.3

KW, 3/e: case 10, Burnett on Liggett; KW, pp. 180-186

KW, case 20, Edlin and Farrell on American Airlines

KW, case 19, Rubinfeld on Microsoft

Articles on Microsoft by Gilbert and Katz, by Klein, and by Whinston, *Journal of Economic Perspectives*, Spring 2001