

Aug. 31 version

NORTHEASTERN UNIVERSITY
Department of Economics
Fall 2006

G772: Public Policies Toward Business

Prof. John Kwoka

Course Description: This course covers the three major public policies toward business-- antitrust/competition policy, regulation/deregulation, and public/private ownership. For each, we apply theory and empirical understanding from industrial economics in order to analyze the issues and evaluate policy. Examples are drawn primarily from the U.S. together with some international experiences.

Readings: There are three textbooks that will be used extensively in this course.

Church and Ware, *Industrial Organization: A Strategic Approach*
Kwoka and White, *The Antitrust Revolution 4/e*
Motta, *Competition Policy: Theory and Practice*

Readings designated as coming from the third edition of Kwoka and White (“3/e”) are available online at: www.oup.com/us/antitrustrevolution. A few additional readings are taken from your Tirole text used in G771. Copies of all other required readings (marked with a * in the list below) will be made available to you.

Course Metrics: Grading in the course will be based on the following:

- (1) A midterm exam plus a final. The midterm will take place on October 23 and cover Section A of the syllabus. The final will cover the entire course but be weighted toward the remaining material. The midterm counts 30% of your grade and the final 50%
- (2) A paper and presentation, details to follow. This will account for the remaining 20% of your grade.

Guide to readings: The following abbreviations are used throughout this reading list:

AB	Antitrust Bulletin
AER	American Economic Review
ALJ	Antitrust Law Journal
BJE	Bell Journal of Economics
CJE	Canadian Journal of Economics
HIO	Handbook of Industrial Organization
IJIO	International Journal of Industrial Organization
JEL	Journal of Economic Literature
JEMS	Journal of Economic and Management Strategies
JEP	Journal of Economic Perspectives
JIE	Journal of Industrial Economics
JLE	Journal of Law and Economics
JLEO	Journal of Law, Economics and Organization
JPAM	Journal of Policy Analysis and Management
JPE	Journal of Political Economy
JRE	Journal of Regulatory Economics
MDE	Managerial and Decision Economics
QJE	Quarterly Journal of Economics
REStat	Review of Economics and Statistics
RIO	Review of Industrial Organization
RJE	Rand Journal of Economics
SEJ	Southern Economic Journal

READINGS

A. ANTITRUST

1. Overview (1)

*Motta, ch. 1

*Church and Ware, Appendix

Kwoka, "Commitment to Competition: An Assessment of Antitrust Agency Budgets since 1970," *RIO*, June 1999

Mueller, "Lessons from the United States' Antitrust History," *IJIO*, June, 1996

2. Coordinated Behavior (2)

*Motta, ch. 2 (pp. 137-166, 185-195)

*Church and Ware, ch. 10.5-10.7

*Cooper, "Most Favored Customer Clauses and Tacit Collusion," *RJE*, Autumn 1986

Kwoka and White, 3/e:

*Hay on Ethyl, pp. 190-200

Kwoka and White:

*ch. 9, Borenstein on Airline Tariff Publishing

*ch. 10, Connor on Lysine, pp. 252-262

ch.8, Porter and Zona on bid rigging

Salop, "Practices That (Credibly) Facilitate Oligopoly Coordination," in Stiglitz and Mathewson, *New Developments in the Analysis of Market Structure*

Christie and Schultz, "Did NASDAQ Market Makers Implicitly Collude?" *JEP*, 1995

Kwoka, "Price Effects of Bidding Conspiracies," *AB*, 1997

Crocker and Lyon, "What Do Facilitating Practices Facilitate?" *JLE*, 1994

Genesove and Mullen, "Rules, Communication, and Collusion: Narrative Evidence from the Sugar Institute Case," *AER*, 2001

3. Horizontal Mergers (3)

*Church and Ware, ch.23

*Motta, ch. 5 (pp. 231-270)

*Nevo, "Mergers with Differentiated Products: The Case of the RTE Cereal Industry," *RJE*, 2000

*Kim and Singal, "Mergers and Market Power," *AER*, 1993

*Werden and Froeb, "Simulation as an Alternative to Structural Merger Policy," ch. 4 in *The Economics of the Antitrust Process*, Coate and Kleit, eds.

Kwoka and White:

*ch. 2, Dalkir and Warren-Boulton on Staples-Office Depot

ch. 5, Bulow and Shapiro on BP Amoco-ARCO

Kwoka and White, 3/e:

*White on Coke-Dr Pepper

Pesendorfer, "Horizontal Mergers in the Paper Industry," *RJE*, 2003

Kwoka, "Non-Incumbent Competition: Mergers Involving Constraining and Prospective Competition," *Case Western Reserve Law Review*, 2001
Farrell and Shapiro, "Horizontal Mergers: An Equilibrium Analysis," *AER*, 1990
Kwoka, "The Private Profitability of Horizontal Mergers with Non-Cournot and Maverick Behavior," *IJIO*, 1989
Sibley and Heyer, "Selected Economic Analysis at the Antitrust Division," *RIO*, 2003, pp. 97-108
Merger Guidelines, www.usdoj.gov/atr/public/guidelines/hmg.htm
Egge, Bay, and Calzado, "The New EC Merger Regulation: A Move to Convergence," *Antitrust*, 2004

4. Monopolization by Predation (1.5)

*Church and Ware, ch. 21
*Motta, ch. 7 (pp. 412-454)
Kwoka and White, 3/e:
 *Burnett on Liggett
Kwoka and White:
 *ch. 20, Edlin and Farrell on American Airlines
*Katz, "Recent Antitrust Enforcement Actions by the US Department of Justice," *RIO*, 2003, pp. 391-393
*Genesove and Mullin, "Predation and Its Rate of Return: The Sugar Industry, 1887-1914," *RJE*, Spring 2006
Klevorick, "Current State of Law and Economics in Predatory Pricing," *AER*, 1993
Bolton, Brodley, and Riordan, "Predatory Pricing, Strategic Theory, and Legal Policy," *Georgetown Law Review*, 2000
Facey and Assaf, "Monopolization and Abuse of Dominance in Canada, the United States and the European Union: A Survey," *ALJ*, 2002

5. Monopolization by Exclusion (2)

*Church and Ware, ch. 20
*Tirole, pp. 333-336
*Katz, *RIO*, 2003, pp. 380-383
Kwoka and White:
 *ch. 19, Rubinfeld on Microsoft
 *ch. 16, Nalebuff on GE-Honeywell
*Motta, ch. 6 (pp. 378-391), ch. 7 (pp. 460-468)
*Carlton and Waldman, "The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries," *RJE*, Summer 2002
Greenlee, Reitman, and Sibley, "An Antitrust Analysis of Bundled Loyalty Discounts," DOJ EAG Discussion Paper 04-13, 2004
Rubinfeld, "3M's Bundled Rebates: An Economic Perspective," *University of Chicago Law Review*, 2005
Whinston, "Exclusivity and Tying," *JEP*, 2001
Nalebuff, "Bundling as an Entry Barrier," *QJE*, 2004

6. Vertical Issues (1.5)

*Church-Ware, ch. 22

*Motta, ch. 6 (pp. 302-378, but no technical sections)

*LaFontaine and Slade, "Exclusive Contracts and Vertical Restraints: Empirical Evidence and Public Policy," in *Handbook of Antitrust Economics*, edited by P. Buccirossi

Kwoka and White:

*ch. 13, Scherer on Toys R Us

*ch.17, MacKie-Mason and Metzler on Kodak

Kwoka and White 3/e

Lynk on Jefferson Parish-Hyde

Chen, "On Vertical Mergers and Their Competitive Effects," *RJE*, 2001

Hastings, "Vertical Contracts and Competition in Retail Gasoline Markets," *AER*, 2004

Borenstein, MacKie-Mason, and Netz, "Antitrust Policy in Aftermarkets," *ALJ*, 1995

Ordoover, Saloner, and Salop, "Equilibrium Vertical Foreclosure," *AER*, 1990

Mathewson and Winter, "Law and Economics of Resale Price Maintenance," *RIO*, 1998

Rubinfeld and Singer, "Vertical Foreclosure in Broadband Access," *JIE*, 2001

B. REGULATION AND DEREGULATION

1. Overview and Assessment (.5)

*Church and Ware, ch. 24 (pp. 748-772)

*Winston, "U.S. Industry Adjustment to Economic Deregulation," *JEP*, 1998

Winston, "Economic Deregulation: Days of Reckoning for Microeconomists," *JEL*, 1993

2. Principles of Price Regulation (2)

*Church and Ware, ch.25.1-25.3, ch. 26.2 (pp. 840-852)

*Hayashi, Sevier, and Trapani, "Pricing Efficiency Under Rate-of-Return Regulation," *SEJ*, 1985

Bailey and Friedlander, "Market Structure and Multiproduct Industries," *JEL*, 1982

Brauetigam, "Optimal Policies for Natural Monopolies," ch. 23 in *HIO*, pp.1290-1327

Laffont, "The New Economics of Regulation," *Econometrica*, 1994

Armstrong, *Regulatory Reform*, ch. 2-3

3. Deregulation of Multifirm Industries: Airlines (2)

*Borenstein, "The Evolution of U.S. Airline Competition," *JEP*, 1992

*Mazzeo, "Competition and Service Quality in the U.S. Airline Industry," *RIO*, June 2003

*Borenstein, "Hubs and High Fares," *RJE*, Autumn 1989

*Hurdle, Johnson, Joskow, Werden, and Williams, "Concentration, Potential Entry, and Performance in the Airline Industry," *JIE*, 1989

*Bamberger, Carlton and Neumann, "An Empirical Investigation of the Competitive Effects of Domestic Airline Alliances," *JLE*, 2004

Morrison and Winston, "Empirical Implications and Tests of the Contestability Hypothesis," *JLE*, 1987

Borenstein and Netz, "Why Do All the Flights Leave at 8 am?" *IJIO*, 1999

- Bruekner and Spiller, "Economics of Traffic Density in the Deregulated Airline Industry," *JLE*, 1994
- Peteraf and Reed, "Pricing and Performance in Monopoly Airline Markets," *JLE*, 1994

4. Deregulation of Multiproduct Firms: Telecom (2)

- *Church and Ware, ch. 26.1-26.3
- * Kwoka, "Implementing Price Caps in Telecommunications," *JPAM*, 1993
- * Vogelsang and Finsinger, "A Regulatory Adjustment Process for Optimal Pricing by Multiproduct Monopoly Firms," *BJE*, 1979
- *Kridel, Sappington and Weisman, "The Effects of Incentive Regulation in the Telecommunications Industry: A Survey," *JRE*, 1996
- *Krause and Park, "Competition in the Interexchange Telecommunications Market," *JLE*, 2003
- *Laffont and Tirole, "Creating Competition Through Interconnection: Theory and Practice," *JRE*, 1996
- Kwoka and White:
 - *ch. 4, Pelcovits on MCI WorldCom and Sprint
- Kwoka and White, 3/e:
 - Brenner on Bell Atlantic-Nynex
- Crew and Kleindorfer, "Incentive Regulation in the United Kingdom and the United States: Some Lessons," *JRE*, 1996
- Taylor and Zona, "An Analysis of the State of Competition in Long Distance Telephone Markets," *JRE*, 1997
- Harris and Kraft, "Meddling Through: Regulating Local Telephone Competition in the United States," *JEP*, 1997

5. Restructuring and Residual Regulation: Electricity (2)

- *Joskow, "Restructuring, Competition, and Regulatory Reform," *JEP*, 1997
- *Joskow, "Markets for Power in the U.S.: An Interim Assessment," *Energy Journal*, 2006
- * Kwoka, "Vertical Integration and Its Alternatives for Achieving Cost Efficiency in Electric Power," *IJIO*, 2002
- *Wolfram, "Measuring Duopoly Power in the British Electricity Spot Market," *AER*, 1999
- *Wolak, "Diagnosing the California Electricity Crisis," *Electricity Journal*, 2003
- *Kwoka and Pollitt, "Deregulation, Mergers, and Efficiency: Evidence from the U.S. Electric Power Industry," 2006
- Borenstein, Bushnell, and Wolak, "Measuring Market Inefficiencies in California's Restructured Wholesale Electricity Market," *AER*, 2002
- Kwoka, "Unilateral Withholding: Market Power and California's Electricity Crisis," GWU CER Discussion Paper 01-01, 2001
- Berg and Jeong, "An Evaluation of Incentive Regulation for Electric Utilities," *JRE*, 1991
- Borenstein, Bushnell, and Stoft "The Competitive Effects of Transmission Capacity in a Deregulated Electricity Market," *RJE*, 2000
- Newbery and Pollitt, "Restructuring and Privatization of Britain's CEGB—Was It Worth It?" *JIE*, 1997
- Borenstein, "The Trouble with Electricity Markets and the California Electricity

Restructuring Disaster,” *JEP*, 2002
Green, “The Electricity Contract Market in England and Wales,” *JIE*, 1999

C. PUBLIC ENTERPRISE

1. Theories of Public vs. Private Ownership (1)

- * Vickers and Yarrow, “Economic Perspectives on Privatization,” *JEP*, 1991
- * Dixit, “Power of Incentives in Private and Public Organizations,” *AER*, 1997
- * Hart, Schleifer, and Vishny, “The Proper Scope of Government,” *QJE*, 1997
- Shapiro and Willig, “Economic Rationales for the Scope of Privatization,” in *The Political Economy of Private Sector Reform and Privatization*, E. Suleiman and Waterbury, 1999
- Sappington and Stiglitz, “Privatization, Information, and Incentives,” *JPAM*, 1987
- Laffont and Tirole, “Privatization and Incentives,” *JLEO*, 1991
- Schleifer, “State versus Private Ownership,” *JEP*, 1998

2. Evidence on Effects (1.5)

- * Viscusi, Vernon, and Harrington, ch. 14 (pp. 463-472)
- * Kwoka, “The Comparative Advantage of Public Ownership,” *CJE*, 2005
- * Megginson and Netter, “From State to Market,” *JEL*, 2001
- Lopez-de-Salines, Shelifer, and Vishny, “Privatization in the United States,” *RJE*, 1997
- Peltzman, “Pricing in Public and Private Enterprises,” *JLE*, 19??
- Galal, Jones, Tandon, and Vogelsang, *Welfare Consequences of Selling Public Enterprises*, 1994
- Kwoka, “Governance Alternatives and Pricing in the U.S. Electric Power Industry,” *JLEO*, 2002
- Joskow, Schmalensee, and Tsukanova, “Competition Policy in Russia During and After Privatization,” *Brookings Papers on Economic Activity (Micro)*, 1994