

NORTHEASTERN UNIVERSITY
Department of Economics
Fall 2007

G772: Public Policies Toward Business

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Course Description: This course covers the three major public policies toward business-- antitrust or competition policy, industry regulation and deregulation, and public vs. 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 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*

Church and Ware is no longer in print but available online or used at Amazon.com URL is <http://homepages.ucalgary.ca/~jrchurch/page4/page5/files/PostedIOSA.pdf>. Readings designated as coming from the third edition of Kwoka and White ("3/e") are available online at: www.oup.com/us/antitrustrevolution. Readings designated as coming from the fifth edition of Kwoka and White ("5/e") will be provided directly to you. Copies of other required readings not available online will also be provided 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 22 and cover Section A of the syllabus. The final will cover the entire course but be weighted toward the remaining material. The midterm counts 25% of your grade and the final 35%. There are no makeup exams.

(2) Homework problem sets will be distributed approximately every two weeks. Your answers will be graded and collectively account for 20%.

(2) Two short (6-8 pages) papers and presentations that will account for the remaining 20% of your grade. The first paper summarizes and analyzes the economic and policy issues in an antitrust case from *The Antitrust Revolution*. The second paper does the same thing with respect to a regulatory economics issue from one non-required article on your reading list. Each paper should identify a researchable question or two, and suggest how it might be pursued. There will be 10-minute class presentations of each paper. More details will follow.

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

Roeller and Stehmann, "[The Year 2005 at DG Competition](#)," *RIO*, December 2006

2. Coordinated Behavior (2)

*Motta, ch. 4 (pp. 137-166, 185-195)

*Church and Ware, ch. 10.5-10.7

*Cooper, "[Most Favored Customer Clauses and Tacit Collusion](#)," *RJE*, Autumn 1986

*Hay on Ethyl, pp. 190-200, in Kwoka-White, 3/e

*Roos, "[Examining Models of Collusion: The Market for Lysine](#)," *IJIO*, 2006

*Harrington, "[Detecting Cartels](#)," in P. Buccirossi, *Handbook of Antitrust Economics*, pp. 1-30, 45-51

Porter and Zona, "Ohio School Milk Markets," *RJE*, Summer 1999

Connor, "Cartel Overcharges: Survey and meta-analysis," *IJIO*, Nov 2006

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

Blair et al, "Collusive Duopoly: The Economic Effects of the Aloha and Hawaiian Airlines' Agreement to Reduce Capacity," *ALJ*, 2007

3. Horizontal Mergers (3)

*Church and Ware, ch.23

*Motta, ch. 3, ch. 5 (pp. 231-256, 265-277)

*Dalkir and Warren-Boulton on Staples, ch. 2 in Kwoka-White

*Ashenfelter et al, "[Econometric Methods in Staples](#)," 2004

*DeGraba on Arch Coal, in Kwoka-White 5/e

*Pesendorfer, "[Horizontal Mergers in the Paper Industry](#)," *RJE*, 2003

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

Gugler et al, "The Effects of Mergers: An International Comparison," *IJIO*, 2003

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

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

Peters, "Evaluating the Performance of Merger Simulation," *JLE*, October 2006

4. Monopolization by Predation (1.5)

- *Motta, ch. 7 (pp. 412-426, 433-435, 442-454)
- *Genesove and Mullin, "[Predation and Its Rate of Return: The Sugar Industry, 1887-1914](#)," *RJE*, Spring 2006
- *Bolton, Brodley, and Riordan, "[Predatory Pricing, Strategic Theory, and Legal Policy](#)," *Georgetown Law Review*, 2000, pp 2239-62
- *Elzinga and Mills on Spirit, in Kwoka-White 5/e
Church and Ware, ch. 21
Edlin and Farrell on American Airlines, ch. 20 in Kwoka-White
Klevorick, "Current State of Law and Economics in Predatory Pricing," *AER*, 1993
Burnett on Liggett, in Kwoka-White 3/e

5. Monopolization by Exclusion (2)

- *Motta, ch. 6 (pp. 378-391), ch. 7 (pp. 460-483)
- *Whinston, "[Exclusivity and Tying](#)," *JEP*, 2001
- *Rubinfeld on Microsoft, ch. 19 in Kwoka-White
- *Katz, "[Recent Antitrust Enforcement Actions by DOJ](#)," *RIO*, 2003, pp. 380-383
- *Roberts on LePage, in Kwoka-White, 5/e
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
Nalebuff on GE-Honeywell, ch. 16 in Kwoka-White
Popofsky, "Defining Exclusionary Conduct," *ALJ*, 2006
Salop, "Exclusionary Conduct, Effect on Consumers, and the Flawed profit-Sacrifice Standard," *ALJ*, 2006

6. Vertical Issues (1.0)

- *Church-Ware, ch. 22 (pp. 683-696, 704-706)
- *LaFontaine and Slade, "[Exclusive Contracts and Vertical Restraints: Empirical Evidence and Public Policy](#)," in *Handbook of Antitrust Economics*
- *Scherer on Toys R Us, ch. 15 in Kwoka-White
- *Nalebuff on Independent Ink, in Kwoka-White 5/e
Motta, ch. 6 (pp. 302-378)
Lynk on Jefferson Parish-Hyde, in Kwoka-White 3/e
Hastings, "Vertical Contracts and Competition in Retail Gasoline Markets," *AER*, 2004
Ordoover, Saloner, and Salop, "Equilibrium Vertical Foreclosure," *AER*, 1990
Mathewson and Winter, "[Law and Economics of Resale Price Maintenance](#)," *RIO*, 1998

B. REGULATION, DEREGULATION, AND PUBLIC OWNERSHIP

1. Overview (.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
- Armstrong and Sappington, "Regulation, Competition, and Liberalization," *JEL*, June 2006

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
- *Richard, "Flight Frequency and Mergers in Airline Markets," *IJIO*, 2003
- *Borenstein, "[Hubs and High Fares](#)," *RJE*, Autumn 1989
- *Kwoka and Shumilkina, "The Price Effects of Merging with a Potential Competitor," 2007
- *Church and Ware, ch. 14 (pp. 507-513)
- Kim and Singal, "Mergers and Market Power," *AER*, 1993
- Bamberger et al, "An Empirical Investigation of the Competitive Effects of Domestic Airline Markets," *JLE*, 2004
- Mazzeo, "[Competition and Service Quality in the U.S. Airline Industry](#)," *RIO*, June 2003
- 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
- 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
- *Laffont and Tirole, "Creating Competition through Interconnection: Theory and Practice," *JRE*, 1996
- *Pelcovits on MCI WorldCom-Sprint, in Kwoka-White
- *Werden and Froeb, "The Effects of Mergers in Differentiated Products Industries," *JLEO*, 1994
- 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

Harris and Kraft, "Meddling Through: Regulating Local Telephone Competition in the United States," *JEP*, 1997

5. Restructuring and Residual Regulation: Electricity (2)

*Joskow, "[The Difficult Transition to Competitive Electricity Markets in the US](#)," in Griffin and Puller, *Electricity Deregulation: Choices and Challenges*, 2005

*Joskow, "[Markets for Power in the U.S.: An Interim Assessment](#)," *Energy Journal*, 2006, pp. 1-36.

*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

*Kwoka and Pollitt, "[Deregulation, Mergers, and Efficiency: Evidence from the U.S. Electric Power Industry](#)," 2007

*Wolak, "[Diagnosing the California Electricity Crisis](#)," *Electricity Journal*, 2003

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

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

Fabra et al, "Designing Electricity Auctions," *RJE*, Spring 2006

6. Public Ownership in Theory and Practice (1.0)

* 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

*Kwoka, "[The Comparative Advantage of Public Ownership](#)," *CJE*, 2005

*Megginson and Netter, "[From State to Market](#)," *JEL*, 2001

Shapiro and Willig, "Economic Rationales for the Scope of Privatization," in *The Political Economy of Private Sector Reform*, Suleiman and Waterbury, 1999

Sappington and Stiglitz, "Privatization, Information, and Incentives," *JPAM*, 1987

Laffont and Tirole, "Privatization and Incentives," *JLEO*, 1991

Lopez-de-Salines, Shelifer, and Vishny, "Privatization in the United States," *RJE*, 1997