EC 352: Economics of the Firm

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Spring 2011-Preliminary Syllabus
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Course Description:
This is an advanced undergraduate course examining the economics of firms. We will cover both the major motivations for the existence of firms in a market economy, as well as the detailed analysis of firm behavior. The analysis will be formal and utilize concepts and techniques from intermediate microeconomics, and introduce new math and techniques for modeling firm behavior. If you are uncomfortable or struggled with the mathematics from intermediate micro this course may be very difficult to follow. The topics we cover include oligopoly competition, collusion, price discrimination, game theory, product differentiation, advertising, and entry and exit. The focus of a course like this is to apply and expand the modeling toolkit economists use to think about the world. In the process you will develop your ability to understand strategic interactions and the organization of firms in a market economy. Accordingly the course will involve working through problem sets on your own and/or in a group in order to fully understand the lecture materials. Sitting through class and listening is not enough to learn the material.

In addition to problem sets and lectures, the course will also involve student presentations and a term paper. Both projects will be done in groups. The focus of the project is to help you learn about real-world applications of the topics we discuss through anti-trust case law, which has a rich and interesting history in the United States.

Prerequisite: EC 201.

Reading: The required textbooks for the class are:


Short readings, posted on Blackboard.

The textbook will provide a background for the topics we discuss in class. The notes you take from lectures and the problem sets are the best guide for the material which will be tested in the exams.
Lectures:
Lectures are scheduled from 12:00-1:15pm on T TH.

Office Hours:
Will be held on Tuesday at 10 AM. The TA will also hold a weekly office hour TBA.

Exams and Grading:
There will be a midterm, final exam, and six problem sets. Late problem sets will not be accepted. Problem sets are graded on a zero (0%), partial (1%) or full credit (2%) basis, with the percent referring to the fraction of your final grade. To complete the problem sets you are welcome to discuss and work with your classmates, and may turn in joint problem sets of up to four students. If you fail to contribute to, or understand, your problem set write-ups you will hurt only yourself and will be completely unprepared for the exams. The weighting of your grade is given by:

Final: 35%
Midterm: 20%
Problem Sets: 12%
Presentation: 18%
Final Paper: 15%

Tentatively the midterm will be on Thursday March 17, the final exam will be on Saturday, May 14 9:00am.

Antitrust Project:
Students should form groups of 3-4 students and the first group to email me all their members and the case study they have chosen gets first choice of the dates to present. Following the first 4 weeks of lecture, we will begin to have a weekly presentation by a group. The presentation should be at least 30 minutes, and participation by the class in the presentation is mandatory. The goal of the presentation is for you to successfully communicate how the concepts of economic theory/industrial organization were applied in the particular case you are studying.

The final paper should be at least 15 pages and present a thorough background and history of the market, competitors in question, and relevant prior cases. The major thesis of the project should revolve around how economic ideas influenced the courts understanding of the market practices under question. To that end the paper should include a stylized (i.e. simple) model of the market in question, or at a minimum a section describing such a model (this may require going back and reading relevant journal articles/reports).

Resources for Antitrust Research:
Outline of Topics (Subject to Changes):
Introduction and motivation. Costs, demand and welfare in the context of single product monopoly and comparison with perfect competition.
(PRN Ch 2 and 4) (KW Introduction: pp 1-5, 8-26)

Multiproduct monopoly and monopoly bundling and tying
(PRN Ch 8)

First and third degree price discrimination
(PRN Ch 5)

Second degree price discrimination
(PRN Ch 6)

Durable goods monopoly

Introduction to game theory
(PRN Ch 9)

Cournot and Bertrand competition (homogenous products)
(PRN Ch 9 and 10)

Differentiated product competition, variety and “excess entry”
(PRN Ch 7 and 10)

Midterm Exam (March 11)

Collusion and facilitating practices
(PRN Ch 11, 14, 15)

Mergers
(PRN Ch 16)

Strategic entry deterrence
(PRN Ch 8.4, 12)

Vertical relationships
(PRN Ch 17-19)

Auctions
(PRN Ch 25)

Firm R&D Competition