

**EC 355: TOPICS AND CASE STUDIES  
IN ANTITRUST LAW AND ECONOMICS**

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This course examines some of the principal issues in current antitrust economics and public policy. The class will address these issues through the study of the literature and case studies. Issues to be covered include: market definition for use in assessing market power; price fixing; predatory pricing; bundling of goods and services; antitrust damages; and merger policy. Cases to be analyzed include seminal antitrust matters involving Standard Oil, IBM, Alcoa and Microsoft.

**Prerequisites:** The prerequisite for this course is Micro Theory, EC 201 or EC203.

**Readings:** Required readings will be compiled into a reading packet available at the College Bookstore.

**Method:** The course requires active participation by the class. Although I frequently will use the traditional lecture method, you should read the assigned materials before class and be prepared to participate in the discussions. I will call on students randomly in class.

**Grading:** There will be a paper, an in-class presentation of the paper, and a final exam. The examination will account for 50 percent of your grade, the paper 30 percent, presentation of the paper 10 percent, and class participation 10 percent.

There will be no rescheduling of the exam. Only under extremely extenuating circumstances will an excused absence be considered. The date for the final exam will be Wednesday, May 10, 9:00 a.m.

**Paper:** I will place the students in teams. Each team will prepare a 10-15 page paper and give a summary presentation in class. Students have the option of turning in an outline and a draft of the paper before the final paper is submitted on the day of the class presentation. The drafts will be returned before the presentation.

Students are to follow accepted rules for bibliographies, footnotes and references. Review the College's policy on plagiarism.

## READING OUTLINE

We will cover as many topics, in order of the reading outline, as the semester will allow. I have not included a time framework for completion of each section, as I wish to remain flexible in allocating the amount of time necessary to complete each topic. However, I will inform you in advance of the reading assignments for near term classes. I reserve the right to make changes to this outline during the course of the semester.

### I. Introduction and Overview

- |    |                                                                                    |                                                                                                                                                         |
|----|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| A. | Introduction to the course                                                         | Carlton & Perloff (C&P),<br><u>Modern Industrial Organization</u> ,<br>Ch. 19, pp. 601-616.                                                             |
| B. | Review of key economic concepts                                                    | Pepall, Richards & Norman,<br><u>Industrial Organization</u> , Ch. 1<br>(PRN); or review chapters in<br>Microtheory Text on Monopoly<br>and Competition |
| C. | Economic Analysis in Antitrust Cases                                               | Horizontal Merger Guidelines<br>of DOJ/FTC                                                                                                              |
|    | 1. S-C-P Paradigm vs. Chicago School                                               | <u>Industrial Organization</u> (W&J),<br>pp. 3-10.                                                                                                      |
|    | 2. Anatomy of an Antitrust Matter                                                  | A. Gavil, An Analysis of Some<br>Procedural Aspects of the<br>Microsoft Trial, <u>Antitrust</u> ,<br>pp. 7-14.                                          |
|    | <ul style="list-style-type: none"><li>• Monopolization</li><li>• Mergers</li></ul> |                                                                                                                                                         |
|    | 3. Use of Economists                                                               |                                                                                                                                                         |

### II. Market Power

- |    |                                       |
|----|---------------------------------------|
| A. | Definition of Concept of Market Power |
| B. | Definition of Market                  |
|    | 1. Substitutability: Demand/Supply    |
|    | 2. Product and Geographic Markets     |

3. Relevance for Antitrust Cases

F. Fisher, Diagnosing Monopoly , Industrial Organization, Economics and the Law, pp. 3-32.

S. Salop, The Kodak Case: The First Principles Approach, Working Paper, pp. °8-23.

4. Measurement of Substitutability

- Cross elasticity/Econometrics
- Art vs. Science
- Case Studies

Cellophane

E. Singer, Antitrust Economics, pp. 54-62.

Alcoa

E. Singer, pp. 42-47.

Computers

- IBM Case

Fisher, McGowan, Folded, Spindled, and Mutilated, pp. °5-16.

- Digital Equipment Corp.

- Operating systems: Microsoft Case [Reading to be assigned.]

C. Collusion: Price Fixing

1. Overt vs. Covert Collusion

A. McGahan & M. Porter, The Persistence of Shocks to Profitability, Review of Economics and Statistics, Summer, 1999.

W&J, Industrial Organization, pp. °482-503.

C&P, Ch. 19, pp. 616-628.

PRN, pp. °343-363.

2. Factors Facilitating/Impeding Collusion

C&P, Ch. 5.

3. A framework for Analyzing Price Fixing  
(with applications to several industries)

#### D. Monopolization

1. Predatory Pricing: Standard Oil Case of 1910

ABA, The Seriousness of the Danger Posed by Predatory Pricing, Monograph 22, Predatory Pricing, pp. 41-71.

Einhorn & Smith, Economic Aspects of Antitrust, pp. 37-41.

PRN, pp. 287-296.

2. Bundling/Predation

- U. S. v. IBM
- U. S. v. Microsoft

Findings of Fact, U.S. v. Microsoft. Plus selections from expert testimony [TBA].

R. C. Romaine and S. Salop, Alternative Remedies for Monopolization in Microsoft, Antitrust, pp. 15-24.

J. Lopatka and W. Page, A Cautionary Note on Remedies in the Microsoft Case, Antitrust, pp. 25-30.

### III. Antitrust Damages

#### A. Types of Damages

1. Compensatory
2. Doubling and Trebling; Opportunity Costs; Punitive

#### B. Measurement

1. The Concept of Property

John R. Commons, Legal Foundations of Capitalism, pp. 11-46.

2. Lost Profits

- Applications across Types of Antitrust Cases

- Comparables vs. Direct Estimates
- Net Cash Flows
- Complex Issues

V. O'Brien and J. Meyer, A Guide to Calculating Lost Profits, National Law Journal.

Ross, Westerfield and Jaffe. Corporate Finance, pp. 22-43; 68-95.

F. Fisher & R. C. Romaine, Janis Joplin's Yearbook and the Theory of Damages, Industrial Organization, Economics and the Law, pp. 392-405.

J. Patel, R. Weil & M. Wolfson, Accumulating Damages in Litigation: The Roles of Uncertainty and Taxes, The Journal of Legal Studies.

#### IV. Mergers

##### A. Public Policy

##### B. Antitrust Agencies vs. Federal Energy Regulatory Commission (FERC)

Merger Guidelines of DOJ and FTC.

##### C. Mergers, Market Power under FERC

Guest Lecturer: William H. Hieronymus, one of the world's leading experts in the area of energy.