

BOSTON COLLEGE
Department of Economics

EC 353: Industrial Organization

Fall Term 2004

Professor James A. Dalton

Office Hours: Tuesdays and Thursdays 8:15-8:45;
 10:30- 11:30 and 1:00-2:30; or by appointment

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Prerequisites: Students are expected to be well grounded in microeconomic theory. The **absolute** course requirement is intermediate microeconomics, EC 201 or EC 203. **No exceptions.**

Method: This course expects active participation on a class-by-class basis. Although I frequently will use the traditional lecture method, I also will call on students in each class to discuss assignments. Assignments for a term paper exist in order to develop research and writing skills, and critical thinking, all of which are important objectives of the program in economics. To further this latter objective, this course requires each student to submit two (2) outlines of a term paper and the term paper. (See the latter section of this syllabus for details on the term paper assignments.) Finally, you will be graded also on two written examinations and class participation.

Required Texts: (1) Waldman , D. and E. Jensen. **Industrial Organization: Theory and Practice** (2nd edition). Reading, MA: Addison-Wesley, 2001 (W&J);

(2) Adams, W. and W. Brock. **The Structure of American Industry** (11th edition). Upper Saddle River, NJ: Prentice Hall, 2041 (WB).

(3) Other required readings will be distributed in class.

Grading:

First exam	25%
Final exam	30%
Outlines for term paper	15%
Term paper	20%
Class participation	10%

There will be no scheduling of makeup exams; only under extremely extenuating circumstances will an **excused** absence be considered. Assignments submitted late will be penalized.

Course Calendar, Assigned reading and Communication: The syllabus assigns readings by class; I reserve the option to change assignments. The assigned readings not contained in W&J and WB will be available in class (H). Finally, **all** email communications **must** use the address listed at the top of this page.

Course Syllabus

(To be revised when WB arrives)

I. Introduction and Basic Theory

September 7	A. Introduction	W&J, Ch.1.
September 9	B. Competition vs. monopoly	W&J, Ch.2 (esp.pp.34-51); WB, Ch.1 (agriculture industry); See H (handout) discussing this chapter. For additional review, see chapters on competition and monopoly in any intermediate microeconomics text.

II. Public policy: Background

September 14	A. Overview of antitrust policy	“Antitrust Laws” (H); W&J, Ch.18 (pp.557-562); WB, (TBA); Kovacic, W., and C. Shapiro, “Antitrust Policy: A Century of Economic and Legal Thinking,” <i>The Journal of Economic Perspectives</i> , 15 (Winter 2000), pp.43-60.
September 21	B. Integration of economics and antitrust policy	“Economics in Antitrust Enforcement” (H); H. Petersen, “Markets Are Good” (H); and Barnes, D, “Antitrust, the Rule of Reason, and Democracy,” <i>Review of Industrial Organization</i> (March 1999), pp. 115-122 (H).

III. Market Structure

September 23	A. Market Concentration	W&J, Ch.4, pp. 90-102, 113-11;
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L. White, "Trends in Aggregate Concentration in the U.S., *Jr. of Economic Perspectives*, Fall 2002, pp. 137-160.

September 28		WB, Ch. 3 (cigarette Industry).
September 30	B. Entry and Exit	W&J, Ch.5 (pp. 126-132 and 137-159).
October 5		WB, Ch. 5 (automobile Industry).
IV. Market Conduct		
Oct. 7 & 12	A. Game Theory	A. Dixit, "Recent Developments in Oligopoly Theory", <i>AEA Papers and Proceedings</i> , May 1982, pp. 12-17 (H); W&J, Ch. 6, pp. 167-179; "John F. Nash, Jr. – Autobiography (from the Nobel website) (H).
	B. Collusion	W&J, Ch. 8 (pp. 238-248); "Factors Affecting the Ease/Difficulty of Collusion" (H).
October 12	<u>First outline due</u>	
October 14		Genovese and Mullin, "Rules, Communication, and Collusion: Narrative Evidence from the Sugar Institute Case", <i>American Economic Review</i> , June 2001; W&J, Ch. 9.
October 19	<u>First exam</u>	
October 21	C. Entry and incumbents' strategies	W&J, Ch. 10, pp. 291-294; Ch. 11.
October 26	D. Price Discrimination	W&J, Ch. 14, pp 436-445, 455-462; Ch.19, pp. 601-611.
October 28	Session with expert from information services: Research tools for term papers	

E. Predatory conduct: Recent developments

November 2	1. Myth?	W&J, Ch. 10, pp. 294-301; WB, Ch. 2 (petroleum).
November 4 & 9	2. Imperfect information and uncertainty	
November 11	3. Barriers to entry: Tying and exclusive dealing: <i>The Matter of U.S. v. Microsoft</i>	W&J, Ch. 19, pp. 611-617; “Illustration of Bundling (Handwritten “H”); additional case materials to be distributed.
November 16	<u>Second outline due</u>	
November 16	F. Antitrust: Monopolization and collusion	W&J, Ch. 18.
November 18	G. Product Differentiation and advertising	W&J, Ch. 12 (except pp. 359-361); Rudin, Max, “Beer and America”, <i>American Heritage</i> (June/July 2002), pp.28-38; and WB, Ch. 4 (beer industry).

V. Market Power and Market Performance

November 23	A. Empirical evidence	W&J, Ch. 16; WB, Ch. 9 (telecommunications).
November 30		Peoples and Talley, “Black-White Earnings Differentials...”, <u>Papers and Proceedings, American Economic Review</u> , May 2001, pp.164-167; and Goff, <i>et al</i> , “Racial Integration as an Innovation: Empirical Evidence from Sports Leagues”, <u>American Economic Review</u> , March 2002, pp. 16-26; WB, Ch. 13 (college sports).
December 2	B. Competition, public policy and the U.S. steel industry	W&J, Ch. 18; WB, (TBA); additional material to be distributed.

December 7 & 9 C. Technological change

W&J, Ch.13.

December 9 Term paper due

December 16 Final Exam 9:00 a.m.

Term Paper

Each student will submit a typed paper with 10-12 pages of “content” on a topic that has been approved by me; graphs, “Notes” and the bibliography are to be placed after the content section of the paper. You must submit, via email attachment, a one-page outline of your proposed topic before the start of class on October 12, and a revision by the start of class on November 16; each outline will be graded and accorded a weight for the final grade – 5% for the first outline and 10% for the second outline. You are welcome to meet with me before submitting the first outline, however, between these dates you **must** meet with me to discuss your proposed topic. These outlines should discuss “what” you propose to do, “why” it is relevant to the course and “how” you will proceed. The “how” includes the process expected to be used in gathering information, and the topics for the anticipated sections in the paper. Note: The “what”, “why” and “how” are key components of the final paper.

The paper is due by the start of the last class and must be submitted to me in **each** of two ways: (1) An attachment to an email at the address listed on the first page of this document; and (2) A hard copy presented prior to the last class. The paper should be typed (double-spaced) and the pages should be numbered. The hard copy should be stapled together and it should not be in a plastic folder. The paper should have a cover page with the title, the author's name and the date.

Whereas you are not required to submit drafts of your paper, nevertheless experience clearly indicates that grades improve with feedback from the professor as you proceed. Students have the option of submitting additional outlines and drafts of the paper to me for feedback, but I will not grade these drafts. You may also consider submitting a draft of each section as you develop it. No drafts will be reviewed after December 3rd.

Students are to follow accepted rules for references, footnotes and bibliographies; original sources only will be accepted (internet source material must be replaced by the original source). Review the College's policy on plagiarism. Beware of non-professional sources, particularly from the internet. The grade depends not only on content but also on form and style.

You are urged to read the section on BC’s academic integrity policy. [See <http://www.bc.edu/schools/cas/services/students> and then go to the section on Academic Integrity. See also the academic integrity “quiz” on the political science website for examples and discussion of plagiarism (<http://www.bc.edu/schools/cas/polisci/integrity/quiz>).]

The paper should be divided into sections. Each section should begin with a roman numeral and a topic heading. You should include a bibliography at the end of the paper. References or sources for information or data presented in the body of your paper should not be placed in footnotes. They should appear in the body at the end of the appropriate sentence or paragraph in parentheses. Example:

As a result of the regulation there has been a 30 percent reduction in accidents (Smith, p. 234).

Footnotes should only be used for further exposition or discussion of a point or argument presented in the body of the paper; these fuller expositions should be placed on a separate “Notes” page(s) at the end of the paper before the bibliography. Graphs should be placed on separate pages before the “Notes”.

The Academic Development Center tutors students with writing assignments and provides feedback on drafts of papers. Consider using the resources of the Center which is located on the second floor of O’Neill Library.

Possible Topics for Term Paper

You must present an outline of a “research topic” for approval. The purpose of this type of paper is to study a current issue from the perspective of the thrust of this course. More than one student can work on the same topic, but team projects will not be accepted.

You can select a topic of your choosing with my approval. Possible topics include:

- Present and contrast differences between the two dominant schools of thought in the approach to the study of industrial organization and antitrust policy. Scholars have identified the “Chicago” school and the “S-C-P” school.
- Given rapid technological change in certain industries, discuss the analyses in the published literature that have discussed the impact of antitrust enforcement on the ability of innovators to capture the gains from successful innovation.
- Examine the relationship between market structure and innovation, and tie it into competition policy.
- Contrast and assess the approaches taken by the antitrust authorities in the U.S. and European Union.
- The oil industry has experienced major mergers over recent decades. Yet the monopoly that was Standard Oil was broken up in 1911 and many of the spinoffs have subsequently merged. Are competitive forces different today than in 1911?
- OPEC is a cartel of countries producing crude oil and sets the world market price of crude. Assess the possible impact on markets if Iraq regains its ability to produce a significant amount of crude.
- Many people believe that Walmart has employed anticompetitive practices, including predatory pricing, to gain market share. Evaluate this argument.
- Many regulatory commissions have deregulated the generation of electricity. Contrast the reasons for original decision to regulate with the decisions recently to deregulate. What, if anything, had changed to compel regulators and legislatures to deregulate.
- Concerning the problems with the recent spikes of prices in the market for electric power in California: (1) To what extent were the high prices caused by market power; (2) How might the alleged abuses by Enron and similar brokerage companies have contributed to the high prices?; (3) What other factors affected prices?
- Given the decision in *Matter of DOJ vs. Microsoft*, analyze how the settlement between the governments and Microsoft would mitigate the expected abuse of market power as presented by the District Court. Consider using the recent suit brought by RealNetworks against Microsoft to see if Microsoft is again employing predatory tactics.
- “Network effects” have been key competition issues in antitrust cases (e.g., AT&T and Microsoft). Evaluate this issue in the context of an industry that exhibits this characteristic.
- Contrast the opinions, and the reasons and factual bases for the opinions of economists in a major antitrust case (e.g. Microsoft; Kodak, AT&T, IBM, Kodak).
- Pick an adjudicated antitrust case (e.g. price fixing, predatory pricing, EU competition commission) and analyze the issues related to market power.
- Select an ongoing antitrust case and explain the issues related to the complaint. For example, consider the suit recently brought by Maurice Clarett against the National Football League.
- There are various topics from the arena of sports that could be developed with my assistance. For example: monopsony power embodied in the Reserve Clause in Major League Baseball; or alleged anticompetitive practices by the NFL against the WFL.

- Analyze the arguments underlying recent arguments to limit antitrust enforcement in the “New Economy”; place these arguments in historical perspective.
- Contrast the approaches by the Antitrust Division of the Department of Justice to antitrust enforcement employed during the tenure of two or more U.S. Presidents
- The Bush Administration recently imposed, and subsequently relaxed, tariffs on imported steel. Place this decision in the context of market power in the steel industry over time and the need to protect domestic markets from imports.
- Vertical restraints (e.g., resale price maintenance) involve relationships between retailers and manufacturers. Some allegedly adversely affect competition. Pick a case(s) and analyze this issue – e.g., the main economic issue decided by the *Schwinn* case was essentially overturned in the *Sylvania* case.
- Conduct a case study of an industry. (Consider using an industry that has been omitted from an earlier edition of the Brock book (formally Adams and Brock), update the information from the sources used by the author and discuss the implications of change, if any, since the last study was published.)