

AMERICAN UNIVERSITY

Department of Economics

ECON 546 Industrial Economics
Spring 2008
Mon. 5:30-8 PM

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Course Description:

This is a course in applied microeconomics, focusing on the economics of the firm and of the industry. Theoretical, empirical, and policy approaches to the field are all examined. While the public policy and empirical emphasis is on the U.S. experience, most of the course content is applicable to other developed industrial economies. There will be little discussion of regulatory issues and only one class devoted to antitrust (or competition) policy; detailed treatment of both topics is given in ECON 547, Economics of Antitrust and Regulation, which is offered during the first Summer session.

Prerequisite: ECON 500 or ECON 703

Textbooks (all should be on reserve at library):

Required:

Carlton & Perloff, Modern Industrial Organization, 4th ed. (Addison Wesley, 2005)

Recommended:

Tirole, The Theory of Industrial Organization (MIT Press, 1988) C for PhD level

Grading:

Grades will be assigned on the basis of a midterm exam (30% of the final grade), a final exam (40%), a short paper (15%), and a class presentation (15%). The class presentation will involve analysis and leading class discussion (for approximately 20 minutes) of an article from the supplemental reading list attached; **to receive a satisfactory grade the student must do more than simply summarize the article**. The short paper (maximum 10 pages typed, double-spaced), due the last class of the semester, will be either a critique of, or empirical replication of the results of *another* article from that list (again, to receive a satisfactory grade considerably more than mere summary is required). Both articles must be cleared with me.

Course outline (Carlton-Perloff readings required, others optional):

1. Introduction, Welfare Economics, Theory of the Firm, Contracts (Jan. 14)
Carlton-Perloff, ch. 1,2; Tirole, pp. 15-51, 69-78
2. Market Concentration, Mergers, Determinants and Effects of Market Structure (Jan. 28)
Carlton-Perloff, ch. 3,4,8 (up to p. 274),12; Tirole, pp. 169-186; Schmalensee survey article in the Handbook of Industrial Organization, Vol. II
3. Economic Theories of Oligopoly Pricing and Market Strategy, Auctions (Feb. 4, 11, 18, 25)
Carlton-Perloff, ch. 6,7,10,11; Tirole, pp. 206-224, 239-262, 277-287, 305-323, 367-380

MIDTERM EXAM B March 3
(OVER)

NO CLASS MARCH 10TH (SPRING BREAK)

4. Measurement of Market Power (March 17)
Carlton-Perloff, ch. 8 (from p. 274, and Appendix 8B); Bresnahan survey article in Handbook of Industrial Organization, Vol. II
5. Network Economics (March 24)
Carlton-Perloff, Appendix 11A
6. Information, Advertising, and Innovation (March 31, April 7, 14)
Carlton-Perloff, ch. 13-16; Tirole, pp. 289-295
7. Antitrust Policy: An Overview (April 21)
Carlton-Perloff, ch. 19,5
8. The Intersection Between Industrial Organization and International Economics (April 28)
Carlton-Perloff, ch. 18; Krugman and Caves survey articles in Handbook of Industrial Organization, Vol. II

FINAL EXAM -- May 5th

Industrial Organization Supplemental Reading List

Books: Luis Cabral, Introduction to Industrial Organization

Luis Cabral, ed., Readings in Industrial Organization

Paul Milgrom and John Roberts, Economics, Organization and Management

Dennis Mueller, The Determinants and Effects of Mergers

Jeffrey Perloff, Larry Karp, and Amos Golan, Estimating Market Power and Strategies

F.M. Scherer, Industrial Market Structure and Economic Performance, 3rd ed.

Richard Schmalensee and Robert Willig, eds., Handbook of Industrial Organization, Vol. 1 & 2

Oliver Williamson, Markets and Hierarchies

Articles, by topic:

1. Introduction, Welfare Economics, Theory of the Firm

R. Coase, "The Nature of the Firm," Economica (November 1937)

A. Harberger, "Monopoly and Resource Allocation," American Economic Review (May 1954)

H. Leibenstein, "Allocative Efficiency vs. 'X-efficiency,'" American Economic Review (1966)

W. Baumol and D. Bradford, "Optimal Departures from Marginal Cost Pricing," American Economic Review (June 1970)

A. Alchian and H. Demsetz, "Production, Information Costs and Economic Organization," American Economic Review (December 1972)

R. Feinberg, "Profit Maximization vs. Utility Maximization," Southern Economic Journal (July 1975)

R. Posner, "The Social Costs of Monopoly and Regulation," J. of Political Economy (August 1975)

M. Jensen and W. Mechling, "Theory of the Firm, Managerial Behavior, Agency Costs and Ownership Structure," Journal of Financial Economics (October 1976)

K. Cowling and D. Mueller, "The Social Costs of Monopoly Power," Economic Journal (Dec. 1978)

R. Marris and D. Mueller, "The Corporation, Competition, and the Invisible Hand," Journal of Economic Literature (March 1980)

B. Jovanovic, "Selection and Evolution of Industry," @ Econometrica (1982)

P. Joskow, "Contract Duration and Relationship-Specific Relationships: Empirical Evidence from Coal Markets," American Economic Review (March 1987)

<http://www.jstor.org/view/00028282/di950054/95p0045q/0>

D. Levinthal, "A Survey of Agency Models of Organizations," J. of Econ. Behavior and Org. (1988)

J. Dearden, B.W. Ickes, and L. Samuelson, "To Innovate or Not to Innovate: Incentives and Innovation in Hierarchies," American Economic Review (Dec. 1990)

K. Murphy, "Executive Compensation and the Modern Industrial Revolution," @ Int'l J. Ind. Org (7/97)

P. Bertoletti & C. Poletti, "X-Inefficiency, Competition and Market Information," @ J. Ind. Econ. (12/97)

2. Market Concentration, Mergers, Determinants and Effects of Market Structure

H. Manne, "Mergers and the Market for Corporate Control," Journal of Political Economy (April 1965)

R. Crandall, "Vertical Integration and the Market for Repair Parts in the U.S. Automobile Industry," Journal of Industrial Economics (July 1968)

Collins and Preston, "Price-Cost Margins and Industry Structure," Rev. of Econ. & Stats. (Aug 1969)

D. Mueller, "A Theory of Conglomerate Mergers," Quarterly Journal of Economics (November 1969)

T. Saving, "Concentration Ratios and the Degree of Monopoly," International Econ. Rev. (Feb. 1970)

O. Williamson, "The Vertical Integration of Production: Market Failure Considerations," American Economic Review (May 1971)

F. Warren-Boulton, "Vertical Control with Variable Proportions," Journal of Political Economy (1974)

- R. Caves et al, "Scale Economies in Statistical Analysis of Market Power," Review of Economics and Statistics (May 1975)
- K. Cowling and M. Waterson, "Price-Cost Margins and Market Structure," Economica (May 1976)
- S. Peltzman, "The Gains and Losses from Industrial Concentration," J. of Law & Econ. (Oct. 1977)
- L. Weiss, "Stigler, Kindahl and Means on Administered Prices," American Economic Review (9/77)
- M. Porter, "The Structure Within Industries and Companies' Performance," Review of Economics and Statistics (May 1979)
- F. Fisher, "Diagnosing Monopoly," Quarterly Review of Economics and Business (Summer 1979)
- R. Dansby and R. Willig, "Industry Performance Gradient Indexes," American Econ. Rev. (June 1979)
- R. Feinberg, "The Lerner Index, Concentration, and the Measurement of Market Power," SEJ (4/80)
- Clark and Davies, "Market Structure and Price-Cost Margins," Economica (August 1982)
- D. Ravenscraft, "Structure-Profit Relationships at the Line of Business and Industry Level," Review of Economics and Statistics (February 1983)
- F. Fisher and J. McGowan, "On the Misuse of Accounting Rates of Return to Infer Monopoly Profits," American Economic Review (March 1983)
- I. Domowitz, R. Hubbard, and B. Peterson, "Business Cycles and the Relationship between Concentration and Price-Cost Margins," Rand Journal of Economics (Spring 1986)
- M. Jensen and R. Ruback, "The Market for Corporate Control: The Scientific Evidence," Journal of Financial Economics (April 1983)
- M. Perry and R. Porter, "Oligopoly and the Incentive for Horizontal Merger," Amer Ec Rev (Mar 85)
- R. Feinberg, "'Sales-at-Risk': A Test of the Mutual Forbearance Theory of Conglomerate Behavior," Journal of Business (April 1985)
- S. Bhagat, A. Shleifer, and R. Vishny, "Hostile Takeovers in the 1980s" Brookings Papers on Economic Activity (1990)
- W. Evans, et al, "Endogeneity in the Concentration-Price Relationship: Causes, Consequences, and Cures," Journal of Industrial Economics (December 1993)
- Mata and Audretsch, eds., "The Post-Entry Performance of Firms," Special Issue of International Journal of Industrial Organization (December 1995)
- J. Sutton, "Gibrat's Legacy," Journal of Economic Literature (1997).
- K. Lommerud and L. Sorgard, "A Merger and Product Range Rivalry," @ Int'l J. of Industrial Org. (11/97)
- J. Haskel and P. Scaramozzino, "Do Other Firms Matter in Oligopolies?" @ J. of Ind. Economics (3/97)
- T. Dunne, M. Roberts, and L. Samuelson, "Patterns of Firm Entry and Exit in U.S. Manufacturing," Rand Journal of Economics (Winter 1988)
- T. Bresnahan and P. Reiss, "Entry and Competition in Regulated Markets," Journal of Political Economy (October 1991)
- R. Feinberg and J. Shaanan, "Disaggregated Domestic and Foreign Entry into U.S. Manufacturing Industries: Patterns and Price Effects," @ Antitrust Bulletin (Spring 1997)
<http://galenet.galegroup.com/servlet/BCRC?srchtp=adv&c=1&ste=31&tbst=tsVS&tab=2&aca=nwmg&bconts=2&RNN=A19453196&docNum=A19453196&locID=wash11212>
- R. Prager and T. Hannan, "Do Substantial Horizontal Mergers Generate Significant Price Effects? Evidence from the Banking Industry," @ Journal of Industrial Economics (December 1998)
- R. Feinberg, "The Determinants of Bank Rates in Local Consumer Lending Markets: Comparing Market and Institution-Level Results," @ Southern Economic Journal (July 2003)

3. Economic Theories of Oligopoly Pricing and Market Strategy

- F. Modigliani, "New Developments on the Oligopoly Front," Journal of Political Economy (June 1958)
- G. Stigler, "A Theory of Oligopoly," Journal of Political Economy (1964)

- D. Gaskins, "Dynamic Limit Pricing: Optimal Pricing Under Threat of Entry," Journal of Economic Theory (September 1971)
- J. Wenders, "Excess Capacity as a Barrier to Entry," Journal of Industrial Economics (November 1971)
- N. Ireland, "Concentration and the Growth of Market Demand," Journal of Economic Theory (Oct 1972)
- W. Adams and J. Yellen, "A Commodity Bundling and the Burden of Monopoly," Quarterly Journal of Economics (August 1976)
- A. Spence, "Entry, Capacity, Investment and Oligopolistic Pricing," Bell Journal of Economics (Fall 77)
- W. Baumol and R. Willig, "Fixed Cost, Sunk Cost, Entry Barriers and Sustainability of Monopoly," Quarterly Journal of Economics (August 1981)
- T. Bresnahan, "Duopoly Models with Consistent Conjectures," American Economic Review (Dec 1981)
- W. Baumol, "Contestable Markets: An Uprising in the Theory of Industry Structure," American Economic Review (March 1982)
- P. Milgrom & J. Roberts, "A Limit Pricing and Entry Under Incomplete Information," Econometrica (1982)
- D. Kreps and J. Sheinkman, "A Quantity Precommitment and Bertrand Competition Yield Cournot Outcomes," Bell Journal of Economics (1983)
- E. Green & R. Porter, "A Noncooperative Collusion Under Imperfect Price Information," Econometrica (1984)
- G. Ellison, "Theories of Cartel Stability and the Joint Executive Committee," Rand Journal of Economics (Spring 1994)
- M. Schwartz, "The Nature and Scope of Contestability Theory," Oxford Econ Papers (11/86, supp.)
- C. Davidson and R. Deneckere, "Long-Term Competition in Capacity, Short-Run Competition in Price, and the Cournot Model," Rand Journal of Economics (1986)
- J. Rotemberg and G. Saloner, "A Supergame-Theoretic Model of Business Cycles and Price Wars during Booms," American Economic Review (June 1986)
- B. Benson and R. Feinberg, "An Experimental Investigation of Equilibria Impacts of Information," Southern Economic Journal (January 1988)
- B. Bernheim and M. Whinston, "A Multimarket Contact and Collusive Behavior," Rand Journal of Economics (1990)
- M. Whinston, "Tying, Foreclosure, and Exclusion," American Economic Review (Sept. 1990)
- A. Beggs and P. Klemperer, "Multi-Period Competition with Switching Costs," Econometrica (May 1992)
- R. Feinberg and T. Husted, "An Experimental Test of Discount-Rate Effects on Collusive Behavior in Duopoly Markets," Journal of Industrial Economics (June 1993)
- R. Feinberg, "A Defense of Corporate Myopia," Managerial and Decision Economics (May-June 1995)
- M. Slade, "The Leverage Theory of Tying Revisited: Evidence from Newspaper Advertising," Southern Economic Journal (October 1998)
- K. Elzinga and D. Mills, "Price Wars Triggered by Entry," International Journal of Industrial Org (Jan. 1999)
- S. Dasgupta and J. Shin, "Information Sharing, information free-riding and capital structure in oligopolies," International Journal of Industrial Organization (Jan. 1999)
- J. Goeree and C. Holt, "Ten Little Treasures of Game Theory and Ten Intuitive Contradictions," AER (12/01)
- R. Feinberg and C. Snyder, "Collusion with Secret Price Cuts: An Experimental Investigation," Economics Bulletin (2002)
- Paul Klemperer, "Auction Theory: A Guide to the Literature," Journal of Economic Surveys (1999)
<http://www.blackwell-synergy.com/doi/abs/10.1111/1467-6419.00083>

4. Measurement of Market Power

- F. Gollop and M. Roberts, "Firm Interdependence in Oligopolistic Markets," J. of Econometrics (1979)
- O. Ashenfelter and D. Sullivan, "Nonparametric Tests for Market Structure: An Application to the Cigarette

Industry," Journal of Industrial Economics (1987)

S. Berry, J. Levinsohn, and A. Pakes, "Automobile Prices in Market Equilibrium," Econometrica (1995)

5. Network Economics

Z. Griliches, "Hybrid Corn: An Exploration in the Economics of Technological Change," Econometrica (Oct. 1957)

N. Economides and D. Encaoua, eds., Special Issue on Network Economics: Business Conduct and Market Structure, International Journal of Industrial Organization (October 1996).

S. Liebowitz and S. Margolis, "Network Externality: An Uncommon Tragedy," Journal of Economic Perspectives (Spring 1994)

T. Bresnahan, "Network Effects and Microsoft," working paper --
http://www.stanford.edu/~tbres/Microsoft/Network_Theory_and_Microsoft.pdf

N. Gandal, M. Kende, and R. Rob, "The Dynamics of Technological Adoption in Hardware/Software Systems: The Case of Compact Disc Players," Rand Journal of Economics (Spring 2000)

D. Dranove and N. Gandal, "The DVD vs. DIVX Standard War: Empirical Evidence of Network Effects and Preannouncement Effects," Journal of Economics and Management Strategy (2003)

M. Rysman, "Competition Between Networks: A Study of the Market for Yellow Pages," Review of Economic Studies (April 2004)

6. Information, Advertising, and Innovation

G. Stigler, "The Economics of Information," Journal of Political Economy (June 1961)

P. Nelson, "Advertising as Information," Journal of Political Economy (July 1974)

G. Akerlof, "The Market for Lemons: Quality Uncertainty and the Market Mechanism," Quarterly Journal of Economics (August 1970)

M. Kamien and N. Schwartz, "Market Structure and Innovation: A Survey," J. of Econ Literature (3/75)

P. Nelson, "The Economic Consequences of Advertising," Journal of Business (July 1975)

R. Schmalensee, "Entry Deterrence in the Ready-to-Eat Breakfast Cereal Industry," Bell Journal of Economics (Autumn 1978)

R. Nelson and S. Winter, "Forces Generating and Limiting Concentration under Schumpeterian Competition," Bell Journal of Economics (Autumn 1978)

A. Shaked and J. Sutton, "Relaxing Price Competition Through Product Differentiation," Review of Economic Studies (1982)

A. Sorensen, "Equilibrium Price Dispersion in Retail Markets for Prescription Drugs," Journal of Political Economy (August 2000)

R. Gilbert and D. Newbery, "Preemptive Patenting and the Persistence of Monopoly," American Economic Review (1982)

D. Fudenberg and J. Tirole, "Preemption and Rent Equalization in the Adoption of New Technology," Review of Economic Studies (1985)

M. Sakakibara and L. Branstetter, "Do Stronger Patents Induce More Innovation? Evidence from the 1988 Japanese Patent Law Reforms," Rand Journal of Economics (2001)

P. Milgrom and J. Roberts, "Price and Advertising Signals of Product Quality," J. of Political Economy (1986)

J. Cusumano and S. Domberger, "Advertising and Post-Entry Oligopoly Behavior," J. of Industrial Econ(6/88)

P. Geroski and R. Pomroy, "Innovation and the Evolution of Market Structure," J. of Industrial Econ(9/90)

R. Simpson and N. Vonortas, "Cournot Equilibrium with Imperfectly Appropriable R&D," Journal of

Industrial Economics (March 1994)

- E. Landes and A. Rosenfield, "The Durability of Advertising Revisited," J. of Industrial Economics (9/94)
- S. Rosenkranz, "Quality Improvements and the Incentive to Leapfrog," Int'l J. of Industrial Org (4/97)
- S. Yi, "Entry, licensing and research joint ventures," International Journal of Industrial Org (1/99)
- L. Lambertini, S. Poddar, and D. Sasaki, "Research Joint Ventures, Product Differentiation, and Price Collusion," International Journal of Industrial Organization (June 2002)
- I. Horstmann and G. MacDonald, "Is Advertising a Signal of Product Quality? Evidence from the Compact Disc Player Market, 1983-1992," International Journal of Industrial Organization (March 2003)
- J. Milyo and J. Waldfogel, "The Effect of Price Advertising on Prices: Evidence in the Wake of 44 Liquormart," American Economic Review (December 1999)

7. Antitrust Policy: An Overview

- O. Williamson, "Economies as an Antitrust Defense: the Welfare Tradeoffs," AER (3/68; reply 12/69)
- G. Becker, "Crime and Punishment: An Economic Approach," Journal of Political Economy (March 1968)
- G. Hay and D. Kelley, "An Empirical Study of Price-Fixing Conspiracies," J. of Law & Economics (4/74)
- R. Blair and D. Kaserman, "Vertical Integration, Tying, and Antitrust Policy," Amer. Econ. Rev. (6/78)
- M. Block, F. Nold, and J. Sidak, "The Deterrent Effect of Antitrust Enforcement," Journal of Political Economy (June 1981)
- R. Feinberg, "Strategic and Deterrent Pricing Responses to Antitrust Investigations," International Journal of Industrial Organization (March 1984)
- R. Pittman, "Predatory Investment: U.S. v. IBM," International J. of Industrial Organization (Dec 1984)
- W. Comanor and H. Frech, "The Competitive Effects of Vertical Agreements," American Economic Review (June 1985; also comments and reply, December 1987)
- T. Krattenmaker and S. Salop, "Anticompetitive Exclusion: Raising Rivals' Costs To Achieve Power over Price," Yale Law Journal (December 1986)
- R. Feinberg and M. Meurs, "Privatization and Antitrust in Eastern Europe: The Importance of Entry," Antitrust Bulletin (Fall 1994)
- D. Mueller, "Merger Policy in the U.S.: A Reconsideration," Review of Industrial Org. (Dec. 1997)
- M. Katz, "Recent Antitrust Enforcement Actions by the U.S. Department of Justice: A Selective Survey of Economic Issues," Review of Industrial Organization (December 2002)

8. Industrial Organization and International Economics

- L. Esposito and F. Esposito, "Foreign Competition and Domestic Industry Profitability," Review of Economics and Statistics (November 1971)
- R. Caves, ed., "Symposium on International Trade and Industrial Organization," Journal of Industrial Economics (December 1980)
- P. Krugman, "Scale Economies, Product Differentiation and the Pattern of Trade," American Economic Review (1980)
- J. Brander and B. Spencer, "International R & D Rivalry and Industrial Strategy," Review of Economic Studies (1983)
- J. Eaton and G. Grossman, "Optimal Trade and Industrial Policy under Oligopoly," Quarterly Journal of Economics (1986)
- R. Feinberg, "The Interaction of Foreign Exchange and Market Power Effects on German Domestic Prices," Journal of Industrial Economics (September 1986)
- R. Feinberg, "Imports as a Threat to Cartel Stability," Int'l Journal of Industrial Organization (6/89)
- R. Feinberg and B. Hirsch, "Industry Rent Seeking and the Filing of 'Unfair Trade' Complaints," International Journal of Industrial Organization (September 1989)

- R. Feinberg and S. Kaplan, "The Response of Domestic Prices to Expected Exchange Rates," Journal of Business (April 1992)
- R. Feinberg, "Hysteresis and Export Targeting," International J. of Industrial Organization (Dec. 1992)
- R. Blecker and R. Feinberg, "A Multidimensional Analysis of the International Performance of U.S. Manufacturing Industries," Weltwirtschaftliches Archiv (No. 2, 1995)
- D. Neven and G. Siotis, "Technology Sourcing and FDI in the EC: An Empirical Evaluation," @ International Journal of Industrial Organization (7/96)
- Bernard, Eaton, Jensen, and Kortum, "Plants and Productivity in International Trade," American Economic Review (2003)
- M. Knetter, "Why Are Retail Prices in Japan So High? Evidence from German Export Prices," @ International Journal of Industrial Organization (August 1997)
- V. Ghosal, "Potential Foreign Competition in U.S. Manufacturing," @ International Journal of Industrial Organization (December 2002)
- R. Feinberg and M. Meurs, "Exchange Rate Effects on Domestic Prices in Bulgaria and Poland: Progress in Making Markets?" International Journal of the Economics of Business (July 2005).
- R. Feinberg and K. Reynolds, "The Spread of Antidumping Regimes and the Role of Retaliation in Filings," Southern Economic Journal, 2006