

Brandeis University
Fall 2009

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August 2009

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Industrial Organization

OVERVIEW

Industrial organization is the branch of microeconomics that investigates how firm and industry structure influences market behavior and market outcomes. The course material includes the theory of firm behavior under alternative market structures, empirical evidence on firm and industry behavior, and implications for public policy. Economists specializing in the field of industrial organization are in demand as consultants to business and government.

Economics 80a and Economics 83a (or equivalent courses in microeconomic theory and statistics) should be completed before enrolling in Economics 135a.

COURSEWORK, EXAMS, AND GRADES

Course material will be covered through assigned readings, lectures, problem sets, and class discussion. There will be a mid-term exam in class and a three-hour cumulative final exam during the exam period. Make-up examinations for any student with an excused absence from a fall final exam will be administered by the Registrar.

A short (10 pages or less) paper will be due near the end of term. All students will present brief oral reports based on their papers in class.

Course grades will be determined by performance on the two exams (65%), the paper and presentation (20%), and problem sets and class participation (15%). Class participation will be based on both attendance and participation while in class. Students can miss 2 classes without excuses and without penalty, but surfing the web while in class will be treated especially harshly. There will be 6 graded homeworks (to be handed in) and two practice exams (not to be handed in). Students can miss one homework without penalty and without excuse. Late homeworks will be penalized.

The exam portion of the course grade will be the higher of 32.5% for each of the two exam grades or 25% for the midterm and 40% for the final.

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately.

ACADEMIC INTEGRITY

You are expected to be familiar with and to follow the University's policies on academic integrity (<http://www.brandeis.edu/studentlife/sdc/ai/>). Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judiciary System. Sanctions may include failure in the course and suspension from Brandeis. If you have any questions about expectations, please ask.

READING ASSIGNMENTS

The basic text is Modern Industrial Organization by Dennis W. Carlton and Jeffrey M. Perloff (4th edition, 2005), with supplements on the web at http://wps.aw.com/aw_carltonper_modernio_4/0,9313,1424930-,00.html. Other assigned readings go deeper into some topics or provide an alternative or updated perspective (a few new readings will be added during the semester).

Assigned readings are available on the web or through the Brandeis Library Electronic Resources (start at <http://its.brandeis.edu/research/articles/subjects.html>). Most assigned journal articles are available on JSTOR (<http://www.jstor.org/>). A few readings use advanced mathematics or econometrics. Don't be intimidated. Skim the hard parts and look for the authors' main points.

Because issues evolve rapidly, readings selected in advance cannot cover the latest developments. Students are encouraged to follow current issues by reading periodicals such as The Wall Street Journal, The Financial Times, The New York Times, Business Week, or The Economist on a regular basis. All are available at Brandeis and local public libraries, and all offer student subscriptions at substantially reduced rates. Current editions are also available on the web. Most sites charge a fee for older material and some "premium" content, but students can access this material free from the Brandeis library website.

COURSE OUTLINE AND READING LIST .

August 28:

Introduction and overview

September 1, 4, 8, 11 – Topic 1:

Cost concepts, Perfect completion, monopoly/monopsony, and dominant firm with fringe model

Carlton and Perloff, Chapter 2 (starting on page 20 with Mergers and Acquisitions) chapters 3 and 4

Supplemental Reading (not required, but interesting):

The Horizontal Merger Guidelines, Department of Justice, Available at <http://www.usdoj.gov/atr/public/guidelines/hmg.htm>

HOMEWORK #1 DUE ON SEPTEMBER 18

September 15, 18 and 22 and 25 – Topic 2:

Oligopoly and Cartels

Carlton and Perloff, Chapter 6 (first) and then chapter 5

“A Cartel at Work.” On the U.S. Department of Justice website (<http://www.usdoj.gov/atr/public/speeches/4489.htm>).

Ashenfelter, Orley and Kathryn Graddy, “Anatomy of the Rise and Fall of a Price-Fixing Conspiracy: Auctions at Sotheby’s and Christie’s”, Journal of Competition Law and Economics 2005, 1: 3-20. Available on my website.

HOMEWORK #2 DUE ON OCTOBER 2

October 2 , 6– Topic 3:

Monopolistic competition

Carlton and Perloff, Chapter 7.

Schmalensee, R. 1978. Entry deterrence in the ready-to-eat breakfast cereal industry. Bell Journal of Economics. 9: 305-327. Accessible through JSTOR (<http://www.jstor.org/>).

PRACTICE MIDTERM WITH ANSWERS HANDED OUT ON OCTOBER 2

October 9: Midterm in Class

October 13, 16 – Topic 4

Price Discrimination and Alternative Pricing Schemes

Carlton and Perloff chapter 9 and 10

HOMEWORK #3 DUE ON OCTOBER 23

October 19 and 23 – Topic 5

Entry Deterrence

Carlton and Perloff chapter 11

HOMEWORK #4 DUE ON OCTOBER 30

October 27 – Topic 6

Auctions

Orley Ashenfelter “How Auctions work for Wine and Art” Journal of Economic Perspectives, 1989. Accessible through JSTOR (<http://www.jstor.org/>)

October 30, November 3 – Topic 7

Information, advertising and disclosure

Carlton and Perloff, Chapters 13 and 14.

George A. Akerlof, “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism,” Quarterly Journal of Economics, August 1970. Accessible through JSTOR (<http://www.jstor.org/>).

John Kwoka, “Advertising and the Price and Quality of Optometric Services” American Economic Review, March 1984. Accessible through JSTOR (<http://www.jstor.org/>).

HOMEWORK #5 DUE ON NOVEMBER 10

November 6, 10 – Topic 8

Vertical Integration

Carlton and Perloff, chapter 12

Paper proposal due: November 6

November 13 – Topic 9

Innovation

Carlton and Perloff, Chapter 16 (read pages 525-539 and 554-560; skim relevant portions of remainder).

“Compulsory Licenses and Sleeping Patents,” on the Carlton-Perloff web site (http://wps.aw.com/aw_carltonper_modernio_4/0,9313,1425020-,00.html).

Zoltan J. Acs, David B. Audretsch, and Maryann P. Feldman, “R & D Spillovers and Recipient Firm Size,” Review of Economics and Statistics, May 1994. Accessible through JSTOR (<http://www.jstor.org/>).

HOMEWORK #6 DUE ON NOVEMBER 20

Final paper due: Monday November 16, by 4 p.m.

November 17, November 20, and November 24

Student presentations.

PRACTICE FINAL HANDED OUT

December 1st Final Exam Review

Exam period (December 12-19):