

Central European University
Department of Economics
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Industrial Organization

General Information

Course level: This is an optional course for second year MA students.

Credits: 2 credits (4 ECTS credits)

Time: Four weeks of Fall Semester.

Prerequisites: Students should be familiar with basic concepts of microeconomics on the level of Microeconomic Theory I and II courses. In particular, students should know main concepts of the non-cooperative game theory and contract theory.

Brief Description

This course provides an introduction into the theory of industrial organization. The students will get familiar with basic concepts of industrial economics and their relationship to other fields of economics. The course is based on microeconomic theory and applies it to the study of price and competition in imperfect markets. It therefore builds on what you have learned during your previous courses in microeconomics. During the course we will discuss different forms of oligopolistic competition starting from classical models of Cournot and Bertrand and then we will examine more advanced theories advocated by Hotelling, Salop and others, that may be used in this context. The main emphasis will be put on on the study of firm strategies that are characteristic of market interaction: price competition, product positioning, advertising, and so one. We will also discuss policy implications of different industry structures. In particular, we will discuss the implications of theoretical models for competition policy.

Goals of the course

The course gives an up to date coverage of the most important issues and problems in the theory industrial organization. In particular: (1) The course aims to deepen student's knowledge of competition in oligopolistic markets. (2) The course analyzes the welfare consequences of different industrial structures and different forms of competition. (2) The course gives up to date coverage of competition policy issues in European Union.

Learning Outcomes

Successful completion of the course enables students to

- Summarize and critically evaluate ideas on the topic covered in the course.

- Possess a thorough understanding of selected analytical models employed in industrial organization.
- Be able to evaluate social effects of different industry structures and different forms of competition.
- Possess a critical understanding of the interaction between theory and practice of Competition Policy (Antitrust) with the special emphasis on European Union.

Course Requirements and Assessment

During the course students will be send the problem sets and asked to solve the problems. They can handle the solution in written or electronic form. The credit for problem solving will count at most 50% of the grade. There will be final exam which counts for at least 50% of the grade.

Textbooks

The basic text for this course is Tirole (1988). For a broader coverage of empirical and public policy issues, students should also read: Cabral (2000), Motta (2004), Schmalensee and Willig, eds (1989a) and Buccirossi, ed (2008) and Schmalensee and Willig, eds (1989b). Excellent review of recent theory can be found in Armstrong and Porter, eds (2007). During the course also journal articles will be discussed. Below I also list optional readings, marked by (*), for those who are interested in conducting further studies in the field.

Detailed outline of the course and reading list

The course will be divided into twelve 100-minute classes spread over four weeks (3 classes per week).

Week 1

- Monopoly, Price discrimination:
Tirole (1988), ch. 1,3; (*)Stole (2007); (*) Armstrong (2008)
- Short-run Price and Quantity Competition
Tirole (1988), ch. 5; Carlton and Perloff (1994), ch. 7; Bulow, Geanakoplos and Klemperer (1985); (*)Kreps and Scheinkman (1983)

Week 2

- Product Differentiation
Tirole (1988), ch. 7; Carlton and Perloff (1994), ch. 6; Hotelling (1929); d'Aspremont, Gabszewicz and Thisse (1979); (*)Shaked and Sutton (1982); (*)Shaked and Sutton (1983); (*)Mussa and Rosen (1978)

- Dynamic Price Competition, Collusion
Tirole (1988), ch. 6; Ivaldi, Jullien, Rey, Seabright and Tirole (2003a); (*)Rotemberg and Saloner (1986); (*)Green and Porter (1984);

Week 3

- Fighting with collusion: leniency programs
Motta and Polo (2003); Motta (2004) ch. 4; (*)Rey (2003); (*)Spagnolo (2008)
- Entry, Accommodation and Exit
Tirole (1988), ch. 8; Martin (2002), ch. 11; (*)Armstrong, Cowan and Vickers (1994), ch. 4; (*)Baumol, Panzar and Willig (1982); (*)Dixit (1980)

Week 4

- Vertical Relations:
Tirole (1988), ch. 4; Cabral (2000), ch. 11; Motta (2004) ch. 6; Rey and Verge (2008); (*)Rey and Tirole (2007)
- Horizontal mergers:
Motta (2004), ch. 5; Ivaldi, Jullien, Rey, Seabright and Tirole (2003b); Whinston (2007); (*)Farrell and Shapiro (1990); (*)Rey (2003); (*)Deneckere and Davidson (1985); (*)?

References

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- Baumol, Wilian J., John C. Panzar, and Robert D. Willig**, *Contestable markets and the theory of industry structure*, San Diego: Harcourt Brace Jovanovich, 1982.
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- Bulow, Jeremy I., John D. Geanakoplos, and Paul Klemperer**, “Multimarket Oligopoly: Strategic Substitutes and Complements,” *Journal of Political Economy*, 1985, 93 (3), 488–511.
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