

ECON 637 - Industrial Organization and Regulation

Prof. Laura Lasio

Fall 2022

Lecture: Friday, 11.35-2.25 pm, LEA927

Office hours: Thursday 5.30-7 pm office LEA538 or on Zoom

The course is the first of two courses in Industrial Organization (ECON 637 and 737). The objective of ECON 637 is to provide the students with the theoretical and applied toolkit to understand the main topics in modern Industrial Organization (IO), with applications in competition policy and regulation. The focus will be on the modeling of the most important topics in IO, from market power and strategic interaction in oligopolistic markets, to pricing and non-pricing strategies (advertising, innovation, product differentiation, etc.), to anticompetitive behavior (collusion, deterrence, predation, etc.). Seminal cases in competition policy will also be discussed.

COURSE PREREQUISITES

Students are expected to be familiar with microeconomic theory and standard econometric methods.

COURSE MATERIAL

The main textbook for the course is: Paul Belleflamme and Martin Peitz, “Industrial Organization: Markets and Strategies”, 2nd edition, 2015 (Cambridge University Press).

Some chapters of the following books will also be used:

- Jean Tirole, “The Theory of Industrial Organization” (MIT Press, 1988): **The** reference book for IO Theory (despite its age).
- Massimo Motta, “Competition Policy: Theory and Practice” (Cambridge University Press, 2004): the best applied IO-competition policy reference.
- John E. Kwoka and Lawrence J. White, “The Antitrust Revolution” (5th Edition, 2009, Oxford): a great reference for (mostly US) antitrust cases.

For those interested in specific topics, a more advanced reference is the Handbook of Industrial Organization (Vol. 1-2-3), which provides a thorough discussion of the literature and approaches in the main topics the course will cover. Single chapters can be downloaded at no cost using your McGill credentials.

COURSE REQUIREMENTS AND EVALUATION

Students are expected to read in advance the material and actively participate to the lecture, both live and through discussion forums on MyCourses. Evaluation will be based on the following:

1. 40%: one in-class group presentation of a recent antitrust/competition policy case.
2. 40%: one individual literature review to be handed in after the end of the course.
3. 20%: participation to both live and MyCourses discussions.

McGill Policies

Integrity McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures. (see www.mcgill.ca/students/srr/honest/).

Language In accord with McGill University's Charter of Students Rights, students in this course have the right to submit in English or in French any written work that is to be graded. This does not apply to courses in which acquiring proficiency in a language is one of the objectives.

Extraordinary Circumstances In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

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(TENTATIVE) COURSE OUTLINE

Items preceded by an asterisk are mandatory reading. Additional material (articles, cases, chapters of other books) will be indicated in class and on MyCourses during the course.

Material acronyms: BP: Belleflamme and Peitz; T: Tirole; M: Motta; KW: Kwoka and White.

1. INTRODUCTION TO IO AND COMPETITION POLICY

- *BP: Chapter 2; Appendix
- T: Introduction
- M: Chapter 1

2. STRATEGIC INTERACTION AND OLIGOPOLY

- *BP: Chapters 3 and 4

3. PRODUCT DIFFERENTIATION AND ADVERTISING

- *BP: Chapters 5 and 6

4. SEARCH AND SWITCHING COSTS

- *BP: Chapter 7

5. PRICE DISCRIMINATION

- *BP: Chapters 8, 9 and 10

6. BUNDLING

- *BP: Chapter 11
- *KW: Chapter 15 (the General Electric-Honeywell case)

7. ANTICOMPETITIVE BEHAVIOR: COLLUSION

- *BP: Chapter 14
- *KW: Chapter 11 (the lysine cartel)

8. HORIZONTAL MERGERS

- *BP: Chapter 15
- *M: Chapter 5.7.2 (the Nestlé-Perrier case)

9. ENTRY, DETERRENCE, AND PREDATION

- *BP: Chapter 16
- KW: Chapter 8 (the Spirit-Northwest case)

10. VERTICAL RELATIONS

- *BP: Chapter 17
- *KW: Chapter 20 (the US vs. Microsoft case)

11. NETWORKS AND TWO-SIDED MARKETS

- *BP: Chapters 20, 21, 22
- KW: Chapter 19 (the Visa-MasterCard case)

12. INNOVATION AND R&D

- *BP: Chapters 18 and 19