

Syllabus for the Academic Year 2012/2013

ECON 3013: Industrial Economics II, Dynamic Industrial Organization

Course Instructor

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Course description

The requirements for the module ECON 3013 are to solve 4 problem sets (which have to be handed in) and to do a 2-hour final exam in term 3. The evaluation of this module is based solely on the final exam.

Schedule for lectures

There are 10 2-hour lectures.

Time & room:

- Week 20: Friday, 11:00 – 13:00 in Bedford Way G03
- Weeks 21–24, 26–30: Monday, 09:00–11:00 in Roberts 421

TA

Cristobal Arias
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Office hour: tbd.

RESOURCES

Moodle

In Moodle you can find most of the relevant information for this course such as lecture notes, problem sets, practise problems and news postings.

Readings

- Pepall, L. Richards, D. and G. Norman. 2008. "*Industrial Organization: Contemporary Theory and Empirical Applications*", 4th Edition. Blackwell Publishing (henceforth PRN).
- Belleflamme, P. and M. Peitz. 2010. "*Industrial Organization: Markets and Strategies*". Cambridge University Press (henceforth BP).

PRN is the main textbook of this course. BP is more theory-oriented (and more advanced). You can refer to it as a second reference.

In this module we follow PRN most of the time. Additionally, you will be given some further references (mainly articles) in the detailed syllabus. Compulsory readings are marked with a star (*). Non-compulsory readings are without a star. During the course more supplementary material may be added.

Problem sets & Exercises

You are given a collection of exercises covering all topics. Some of the exercises are used for the problem sets. At the end of the module you receive a solution manual covering all exercises.

OUTLINE OF SUBJECTS

The items listed for each topic give an indication of what is covered in the lectures.

Topic 1: Introduction and Review of Building Blocks

- (a) Introduction to ECON 3013: Organization and structure of the module
- (b) Foundations of IO
- (c) Strategic interaction: Review of basic game theory and static models of oligopoly

* PRN: 1–3, 4.1 & 4.2, 9, 10
BP: 1, 2, 3

Topic 2: Sequential Games, First and Second Movers

- (a) Sequential quantity competition
- (b) Sequential price competition
- (c) Commitment, credibility and subgame perfection

* PRN: 11
BP: 4.1, 4.2

Topic 3: Entry, Exit and Predation

- (a) Entry deterrence
- (b) Predatory Pricing

* PRN: 12, 13
BP: 16

Dixit, A. (1980), *“The Role of Investment in Entry Deterrence”*, Economic Journal, Vol. 90, pp. 95–106.

Link: <http://www.jstor.org/pss/2231658> (University access)

Ordover J. and G. Saloner (1989), *“Predation, Monopolization, and Antitrust”*, Handbook of Industrial Organization, Vol. 1, pp. 537–596.

Topic 4: Cartels and Tacit Collusion

- (a) Repeated games
- (b) Cartels and tacit collusion
- (c) Factors facilitating collusion

* PRN: 14, 15
BP: 14

Motta, M. (2004), *“Competition Policy”*, Cambridge University Press. Chapters 4.1–4.3.

Ivaldi et. al. (2003), *“The Economics of Tacit Collusion”*, Final Report for DG Competition, European Commission.

Billard et. al. (2011), *“Evaluation of the Risks of Collective Dominance in the Audit Industry in France”*, IDEI Working Paper.

Case study 1 : “The Big Four”

- (a) A description of the audit industry
- (b) Objectives of policy makers and their policies
- (c) Analysis of policy interventions in a dynamic model with entry

* Office of Fair Trading (OFT) market investigation:
http://www.offt.gov.uk/shared_offt/markets-work/oft1357MIR

* Competition Commission: Issues Statement
http://www.competition-commission.org.uk/press_rel/2011/december/pdf/64-11_audit_issues.pdf

Competition Commission: Statutory Audit Services market inquiry overview
http://www.competition-commission.org.uk/inquiries/ref2011/statutory_audit_services/

* European Commission:
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/860&format=HTML&aged=0&language=EN&guiLanguage=en>

Arruñada and Paz-Arez (1997), *“Mandatory rotation of company auditors: A critical examination”*, International Review of Law and Economics, Vol. 17 (1), pp. 31–61.

Topic 5: R&D and patents

- (a) Drastic and nondrastic innovations
- (b) Market structure & incentives to innovate: Replacement Effect & Efficiency Effect
- (c) Competition and the Schumpeterian Hypothesis
- (d) R&D cooperation and spillovers
- (e) Optimal patent design
- (f) Patent races

* PRN: 22, 23
BP: 18, 19

Topic 6: Horizontal Mergers

- (a) The Merger Paradox
- (b) Synergies

* PRN: 16 (except 16.4)
BP: 15

Case study 2: Overbidding in mergers

* Malmendier et. al. (2011), *“Winning by Losing: Evidence on Overbidding in Mergers”*, mimeo.