

University of Southern California
Department of Economics

Economics 480

Economics of Industrial Organization

Spring 2016

Class Hours: 10-11:50 AM, Tuesday and Thursday
Classroom: VPD 116

Instructor: Professor Guofu Tan, guofutan@usc.edu
Office Hours at KAP 334B: Tuesday 4-5PM and by appointment

TA: Aleksandar Giga, aleksang@usc.edu; office hours at KAP 359: Thursday 1-3 PM

Course Description: This course introduces the fundamental issues and economic tools in understanding business behavior in concentrated markets (monopoly and oligopoly markets), as well as in studying the implications for business strategies and government policies toward businesses. After developing the basic tools, we will discuss topics such as price-fixing, horizontal and vertical mergers, vertical restraints and monopolization strategies that often attract attentions from practitioners and antitrust authorities. A number of antitrust cases and industry studies will be covered in the course. Complementary to regular lectures and discussions, in-class presentations by students will be an important part of this course.

Prerequisite: Economics 303.

Requirement: Several problem sets (20%), two midterm examinations (50%), and class participation and presentation (30%).

- a) Problem sets will be assigned regularly.
- b) The midterm exams will be on February 11 and March 24, respectively.
- c) A group of 2 students will select and present a case study carefully in class (for about 30 minutes). A list of case studies will be suggested during the semester, but students are encouraged to select business cases themselves. Students are expected to ask questions and make comments during each presentation. Student presentations will begin after the second midterm examination.
- d) Participants are expected to read regularly newspapers (e.g., *The Los Angeles Times*, *The New York Times*, *Wall Street Journal*) and magazines (e.g., *Business Week*, and *The Economist*) for current news and debates on business strategies and public policies toward businesses, which will be discussed in class.

Main Textbook: Pepall, L., D. Richards and G. Norman (2014). *Industrial Organization: Contemporary Theory and Empirical Applications*. 5E. Blackwell Publishing.

Useful books with antitrust case studies: John Kwoka and Lawrence White, *The Antitrust Revolution: Economics, Competition and Policy*, Oxford University Press, several editions.

Course Outline (subject to changes, supplementary materials will be added):

1. Introduction

Readings: Ch. 1

What is industrial organization about? What are the applications in the studies of regulatory policies, competition policy and antitrust?

2. Basic Microeconomic Tools

Readings: Ch. 2

A review of major microeconomic concepts

3. Market Structure and Market Power

Readings: Ch. 3

Market power, market concentration

4. Monopoly Pricing

Readings: Ch. 5, 6 and 8

Single products and multiple products

Linear pricing, price discrimination, bundling, and tie-in selling

5. Game Theory and Oligopoly Markets: Basic Concepts and Solutions

Readings: Ch. 9

Strategies and Nash equilibrium, Cournot model

6. Price Competition

Readings: Ch. 10

Bertrand duopoly model
Product differentiation: Hotelling model

7. Dynamic Games and Competition

Readings: Ch. 11

Entry games and subgame perfect Nash equilibrium
Stackelberg model

8. Price-Fixing, Repeated Games and Collusion

Readings: Ch. 14 and 15
Pricing fixing
Repeated Bertrand Duopoly
Collusion

9. Horizontal Mergers

Readings: Ch. 16

Merger analysis in Cournot model
The merged firms as Stackelberg leaders
Horizontal merger and price competition
Public policy toward horizontal mergers

10. Vertical Mergers and Vertical (Price and Non-price) Restraints

Readings: Ch. 17, 18 and 19

Competitive downstream
Resale price maintenance: theory and public policy
Upstream competition
Upstream competition and exclusive dealing
Exclusive territories

STUDENTS WITH DISABILITIES: Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure that the letter is delivered to me (or the TA) as early in the semester as possible. DSP is open Monday-Friday, 8:30-5:00. The office is in Student Union 301 and their phone number is (213) 740-0776.

Statement on Academic Integrity: USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect ones own academic work from misuse by others as well as to avoid using another work as ones own. All students are expected to understand and abide by these principles. Scampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A:
<http://www.usc.edu/dept/publications/SCAMPUS/gov/>. Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/>.