

# INDUSTRIAL ORGANIZATION THEORY – MODULES 1-2, FALL 2018

Faculty of Economic Sciences

National Research University Higher School of Economics

## BASIC INFORMATION

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INSTRUCTOR'S NAME	Ekaterina Kazakova
CLASS TIMES AND LOCATIONS	Lectures: Fridays, 16:40 – 18:00, Room 5309 Seminars: Fridays, 18:10 – 19:30, Room 5309
EMAIL	<a href="mailto:ekaterina.kazakova@hse.ru">ekaterina.kazakova@hse.ru</a>
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OFFICE LOCATION	Room 4329
OFFICE HOURS	Friday 10:30 – 13:30, Room 4329

## GENERAL INFORMATION ABOUT THE COURSE

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The course introduces the theory of industrial organization and focuses on the behavior of firms, its implications for market structures, and policies of market regulation. After a short overview of perfectly competitive markets and game theoretical concepts, we will move to the imperfect competition and discuss the sources of firm's market power. Among those, we will focus on the strategies of incumbent firms to deter entry and influence the post-entry policies of new entrants. You will become familiar with the principal (static and dynamic) models of monopoly and oligopoly, horizontal and vertical product differentiation, models of asymmetric information, informative and persuasive advertising, and innovation. We will partly cover the topics of firm organization, vertical relations, delegation and integration.

In the second part of the course, we will analyze the industry structure and performance. You will study how to measure the market concentration and relate it to the level of competition. Particular emphasis will be given on the determinants and consequences of vertical and horizontal mergers, and related antitrust policies.

## COURSE GOALS, LEARNING OBJECTIVES, EXPECTED LEARNING OUTCOMES

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You are expected to acquire a broad knowledge on the key topics and core models in theoretical industrial organization.

Prerequisites: Micro I and II.

## COURSE OUTLINE

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Course consists of 15 lectures and 13 seminar sessions. In each seminar, a group of students prepare a 20-minutes presentation of the paper related to a given topic. Overall, 11 papers are going to be presented. The rest of the seminar is devoted to solving theory tasks to the topic discussed in the preceding week. The goal of the problem sets is to make sure you understand and are able to work with modified (and simplified) versions of some of the canonical models we discussed during lectures. Accordingly, it is strongly recommended to solve all problem sets before coming to the seminar.

Description of course methodology and forms of assessment to be used:

- Homework assignments – 20%. There are two assignments. First assignment is due to October 19 and it will cover topics 1 – 6. Second assignment is due to November 30 and it will cover topics 7 – 12. The content of homework assignments will be mainly problem solving and discussion of short papers/articles. Homework assignments will be posted 2 weeks in advance to the corresponding submission deadline.
- Term project – 20%. Term project evaluation consists of the team 20-minutes presentation of one paper during the seminar (8%) and essay on the same paper (12%). Essays should be submitted individually. Registration for the projects will be open on Saturday, September 22 at 11 a.m. in the LMS website and [ekaterinakazakova.com](http://ekaterinakazakova.com) (in the teaching section).
- Final (written) exam – 60%.

$N^{\circ}$	Topic/Focus/Activity	Week	Course format: lectures, seminars, consultations, workshops, etc. (in hours)	Readings and assignments
1.	Introduction	07.09	Lecture	–
2.	Review of perfect competition	07.09, 14.09	Lecture + seminar	Problem set 1
3.	Review of game theory	14.09, 21.09	Lecture + seminar	Problem set 2
4.	Monopoly	21.09, 28.09	Lecture + seminar	Problem set 3 + Shiller & Waldfogel (2011, JIE)
5.	Static oligopoly	28.09, 05.10	Lecture + seminar	Problem set 4 + Genesove & Mullin (1998, RAND)
6.	Dynamic oligopoly and collusion	05.10, 12.10	Lecture + seminar	Problem set 5 + Bernheim & Whinston (1990, RAND)
7.	Product differentiation	12.10, 19.10	Lecture + seminar	Problem set 6 + Smith & Brynjolfsson (2001, JIE)
8.	Advertising	19.10, 02.11	Lecture + seminar	Problem set 7 + Akerberg (2001, RAND)
9.	Imperfect information	02.11, 09.11	Lecture + seminar	Problem set 8 + Gabaix & Laibson (2006, QJE)
10.	Patents and R&D	09.11, 16.11	Lecture + seminar	Problem set 9 + Boone (2000, RAND)
11.	Vertical relations	16.11, 23.11	Lecture + seminar	Problem set 10 + Nocke & White (2007, AER)
12.	Network effects	23.11, 30.11	Lecture + seminar	Problem set 11 + Ohashi (2003, JEMS)
13.	Merger	30.11, 07.12	Lecture + seminar	Problem set 12 + Farrell & Shapiro (1990, AER)
14.	Entry and market structure	07.12, 14.12	Lecture + seminar	Problem set 13 + Goolsbee & Syverson (2008, QJE)
15.	Antitrust	14.12	Lecture	–

## TEXTS, READINGS AND OTHER INFORMATIONAL RESOURCES

Lecture slides are posted in the LMS website and [ekaterinakazakova.com](http://ekaterinakazakova.com) (in the teaching section).

### Books:

- Paul Belleflamme and Martin Peitz, “Industrial Organization: Markets and Strategies”.
- Luís Cabral, “Introduction to Industrial Organization”.
- Oz Shy, “Industrial Organization: Theory and Applications”.
- Jean Tirole, “The Theory of Industrial Organization”.

### Papers:

- Akerberg, Daniel A, 2001. “Empirically Distinguishing Informative and Prestige Effects of Advertising,” RAND Journal of Economics, The RAND Corporation, vol. 32(2), pages 316-333, Summer.
- Boone, Jan, 2000. “Competitive Pressure: The Effects on Investments in Product and Process Innovation,” RAND Journal of Economics, The RAND Corporation, vol. 31(3), pages 549-569, Autumn.
- Bernheim, B. Douglas & Whinston, Michael D., 1990. “Multimarket Contact and Collusive Behavior,” RAND Journal of Economics, The RAND Corporation, vol. 21(1), pages 1-26, Spring.

- Farrell, Joseph & Shapiro, Carl, 1990. “Horizontal Mergers: An Equilibrium Analysis,” *American Economic Review*, American Economic Association, vol. 80(1), pages 107-126, March.
- Gabaix, Xavier & Laibson, David, 2006. “Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets,” *The Quarterly Journal of Economics*, Oxford University Press, vol. 121(2), pages 505-540.
- Genesove, David & Mullin, Wallace P., 1998. “Testing Static Oligopoly Models: Conduct and Cost in the Sugar Industry, 1890-1914,” *RAND Journal of Economics*, The RAND Corporation, vol. 29(2), pages 355-377, Summer.
- Goolsbee, Austan & Syverson, Chad, 2008. “How Do Incumbents Respond to the Threat of Entry? Evidence from the Major Airlines,” *The Quarterly Journal of Economics*, Oxford University Press, vol. 123(4), pages 1611-1633.
- Nocke, Volker & White, Lucy , 2007. “Do Vertical Mergers Facilitate Upstream Collusion?,” *American Economic Review*, American Economic Association, vol. 97(4), pages 1321-1339, September.
- Ohashi, Hiroshi, 2003. “The Role of Network Effects in the US VCR Market, 1978-1986,” *Journal of Economics & Management Strategy*, Wiley Blackwell, vol. 12(4), pages 447-494, December.
- Shiller, Ben & Waldfogel, Joel, 2011. “Music for a Song: An Empirical Look at Uniform Pricing and Its Alternatives,” *Journal of Industrial Economics*, Wiley Blackwell, vol. 59(4), pages 630-660, December.
- Smith, Michael D & Brynjolfsson, Erik, 2001. “Consumer Decision-Making at an Internet Shopbot: Brand Still Matters,” *Journal of Industrial Economics*, Wiley Blackwell, vol. 49(4), pages 541-558, December.

## EXAMINATION/EVALUATION

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To receive a passing grade, students should earn at least 35% of the maximum possible final grade, and at least 25% of the maximum possible grade for the final exam.

There is a retake for the exam for students missing the first-take for a valid reason.

## ACADEMIC INTEGRITY

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The Higher School of Economics strictly adheres to the principle of academic integrity and honesty. Accordingly, in this course there will be a zero-tolerance policy toward academic dishonesty. This includes, but is not limited to, cheating, plagiarism (including failure to properly cite sources), fabricating citations or information, tampering with other students’ work, and presenting a part of or the entirety of another person’s work as your own. HSE uses an automated plagiarism-detection system to ensure the originality of students’ work. Students who violate university rules on academic honesty will face disciplinary consequences, which, depending on the severity of the offense, may include having points deducted on a specific assignment, receiving a failing grade for the course, being expelled from the university, or other measures specified in HSE’s [Internal Regulations](#).

## CHANGES TO THE SYLLABUS

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Any changes to this syllabus will be announced in class and [ekaterinakazakova.com](http://ekaterinakazakova.com).