INDUSTRIAL ORGANIZATION THEORY – MODULES 1-2, FALL 2019

Faculty of Economic Sciences
National Research University Higher School of Economics

BASIC INFORMATION

Instructor's name	Ekaterina Kazakova
Class Times and Locations	Lectures: tba
	Seminars: tba
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Office Location	Room 4329
Office Hours	Friday 10:30 – 13:30, Room 4329

GENERAL INFORMATION ABOUT THE COURSE

The course introduces the theory of industrial organization (IO) which focuses on the business behavior of firms, its implications for industry structures, and policies of industry regulation. More broadly, we look at imperfect competition and strategic interactions of firms in different sectors and explain differences across industries.

You will become familiar with the most important models of the industrial organization for understanding strategies chosen by firms to acquire and maintain market power. Theory is accompanied with discussion of real-world cases that shows you how to apply microeconomic reasoning and connect IO settings to practice.

Among possible strategies, we will discuss

- Pricing and production strategies;

- R&D: competition in innovations and cooperation;

- Informative and persuasive advertising strategies;

- Various anticompetitive practices: collusion, retail price maintenance, price discrimination, tying, exclusive clauses, predatory behavior and entry deterrence.

You will become familiar with the main (static and dynamic) models of monopoly and oligopoly, horizontal and vertical product differentiation, models of asymmetric information.

Moreover, 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. Throughout the course, we will always discuss possible ways of market regulation and related antitrust policies.

COURSE GOALS, LEARNING OBJECTIVES, EXPECTED LEARNING OUTCOMES

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

Moreover, this course improves your (micro-)economic reasoning and modeling skills, which, in particular, can be useful for writing your term papers and Bachelor theses involving analysis at the firm or industry level. Prerequisites: good understanding of Micro I and II.

COURSE OUTLINE

Course consists of 15 lectures and 13 seminar sessions. In the lectures, we will cover basic IO models and discuss the related real-life business cases. 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 the canonical models we discussed during lectures. Accordingly, it is strongly recommended to solve all problem sets before coming to the seminar.

25% HOMEWORKS The content of homework assignments will be mainly problem solving. Homework assignments will be posted 2 weeks in advance to the corresponding submission deadline. More information on the deadlines and number of homeworks will be available in September 2019.

25% TERM PROJECT Term project evaluation consists of the team 20-minutes presentation of one theoretical or empirical IO paper during the seminar (10%) and essay on the same paper (15%). Essays should be submitted individually. Registration for the projects will be open on Saturday, September 7 at 11 a.m. in the LMS website and ekaterinakazakova.com (in the teaching section).

10% QUIZZES Every week, there will be a short online quiz which is aimed to test understanding of the basic concepts discussed in the *previous* lecture.

40% FINAL EXAM Final exam consists of three parts: 20 true/false questions, 3 open questions related to the practical application of IO for industry analysis, and 2 theory problem.

№	Topic	Week	Course format: lectures, seminars, consultations, workshops, etc. (in hours)	Readings and assignments
1.	Introduction		Lecture	–
2.	Review of perfect competition		Lecture + seminar	Problem set 1
3.	Review of game theory		Lecture + seminar	Problem set 2
4.	Monopoly		Lecture + seminar	Problem set 3 + Shiller & Waldfogel (2011, JIE)
5.	Static oligopoly		Lecture + seminar	Problem set 4 + Genesove & Mullin (1998, RAND)
6.	Dynamic oligopoly and collusion		Lecture + seminar	Problem set 5 + Bernheim & Whinston (1990, RAND)
7.	Product differentiation		Lecture + seminar	Problem set 6 + Smith & Brynjolfsson (2001, JIE)
8.	Advertising		Lecture + seminar	Problem set 7 + Ackerberg (2001, RAND)
9.	Patents and R&D		Lecture + seminar	Problem set 8 + Boone (2000, RAND)
10.	Imperfect information		Lecture + seminar	Problem set 9 + Gabaix & Laibson (2006, QJE)
11.	Network effects		Lecture + seminar	Problem set 10 + Ohashi (2003, JEMS)
12.	Vertical relations and integration		Lecture + seminar	Problem set 11 + Nocke & White (2007, AER)
13.	Horizontal mergers		Lecture + seminar	Problem set 12 + Farrell & Shapiro (1990, AER)
14.	Entry and market structure		Lecture + seminar	Problem set 13 + Goolsbee & Syverson (2008, QJE)
15.	Antitrust		Lecture	–

TEXTS, READINGS AND OTHER INFORMATIONAL RESOURCES

Lecture slides are posted in the LMS website and ekaterinakazakova.com (in the teaching section). Lectures are self-sufficient and presented by a convex combination of material from the following books:

- Paul Belleflamme and Martin Peitz, "Industrial Organization: Markets and Strategies".

- Luís Cabral, "Introduction to Industrial Organization".

- Oz Shy, "Industrial Organization: Theory and Applications".

- Jeffrey R Church and Roger Ware, "Industrial Organization: A Strategic Approach".

Below you can see the list of papers that are suggested for the term projects. However, any other scientific papers can be selected if previously discussed and approved by the lecturer.

- Ackerberg, 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

To receive a passing grade, students should earn at least 30% of the maximum possible final grade, and at least 25% of the maximum possible grade for the final exam (or to be among the top 75% students).

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

ACADEMIC INTEGRITY

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

Any changes to this syllabus will be announced in class and ekaterinakazakova.com.