

SYLLABUS: Economics 465 - Public Policy 310, Market Power and Public Policy

Fall 2016

Wed/Fri, 1:25pm - 2:40pm, LSRC A155

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Course description

The purpose of antitrust laws is to control how firms attain and maintain their market position; presumably for the betterment of consumers, or at least for the benefit of society. In this class, using a rigorous set of tools from microeconomic and game theory, we will investigate the underpinnings of policies meant to deal with market power, such as antitrust laws, the regulation of public utilities, the regulation of financial markets, and antidumping rules.

This class will dive into the regulations used in industries with market power, such as antitrust laws and the regulation of natural monopolies. In addition, we will look into the economic theory that provides the intellectual foundation for these policies. Most of the theory background will thus be drawn from the field of Industrial Organization, the field of economics that studies how firms interact with their environment – their customers, each other, regulations, and the government – and the outcomes these interactions lead to. However, much of the substantive evidence for these policies will come from looking at the intersection of industry studies, legal decisions, and historical sources.

Prerequisites

Economics 101 or 101D (Economic Principles), and 201D and 205D (Intermediate Microeconomics I and II). A good understanding of calculus is essential. Prior enrollment in Economics 208D (econometrics) will be helpful in reading many empirical papers. As modern IO relies heavily on the use of game theory, easy facility with basic game theoretic concepts (definitions of a game, Nash equilibrium, subgame perfect equilibrium) will be indispensable and expected.

Textbook and materials

1. Recommended: Oz Shy, Industrial Organization: Theory and Applications, MIT Press 1995.
2. Supplementary: Jean Tirole, The Theory of Industrial Organization, MIT, 1987 (dated, but the original textbook of the field to some extent).

Kwoka and White, The Antitrust Revolution: Economics, Competition, and Policy 6th Edition. (there are many editions of this book)

Whinston Lectures on Antitrust Economics, MIT Press, 2006.

To the limited extent that the course is based on a book, the Shy textbook is probably the closest to what is done in the class. That said, it is not ideal. Tirole is a more comprehensive reference, but a little more theoretical. Many students do fine without the text.

Course materials (lecture slides etc) will be posted to the course website as the course progresses. Only topics I cover in class will appear on exams.

Grading

Evaluation: You will be evaluated based on five different components.

- Midterm (20%) Wednesday October 7th.
- Final (25%) Wednesday December 7th.
- 5 Problem Sets (30%).
- Class Presentations:
 - Presentation of one of the antitrust cases (5%)
 - Presentation of industry study (10%).
- Participation (10%).

Participation is a good citizenship grade - if you are considerate of you classmates in class and think about the economics of a problem before sending an email or asking a question then you will get the full 10%.

Problem sets are due at the start of lecture, on the date indicated on the assignment sheet. Submission may be in the lecture or via email.

Office hours:

I will have an online sign-up sheet for office hours on sites.duke.edu/collardwexler in my office Social Sciences 230.

General policies:

I expect you to follow the basic rules of classroom etiquette, which is particularly important for a small class like this one. I expect to come to every class, on time. If you can't make it to class for one reason or another, please send me an email (I won't respond typically). My policy on anything with a screen (laptops, ipads, smartphones) is that they are not allowed unless I give you explicit permission to use them.

As well, I will expect from you (and myself) that we uphold the Duke Community Standard:

- I will not lie, cheat, or steal in my academic endeavors;
- I will conduct myself honorably in all my endeavors; and
- I will act if the Standard is compromised.

Course Plan

("Shy" refers to the relevant chapter in Shy)

1. Introduction and the Case of American Tobacco.
 - Origins of the American Tobacco Company?, Patrick G. Porter, The Business History Review, Vol. 43, No. 1 (Spring, 1969), pp. 59-76.
 - Text of Supreme Court Decision breaking up the American Tobacco Company. American Tobacco Company, 221 U.S. 106 (1911).
2. Industrial Organization, The Firm.
3. Perfect Competition (Shy 4, Pages 65-69 and pages 75-78 in Tirole).

4. Monopoly (Shy 5, Shy 13, Shy 14)

- Basics
- Price discrimination
- Bundling
- Durable goods
- Patenting
 - Budish, Roin, and Williams (2015) “Do fixed patent terms distort innovation? Evidence from cancer clinical trials”, *American Economic Review*.

5. Antitrust and mergers (Shy 1)

- Background Readings: White (2006) and Whinston (2006) introductory chapters.
- Williamson (1968) “Economies as an Antitrust Defense: The Welfare Tradeoffs?”, *The American Economic Review* Vol. 58, No. 1 (Mar., 1968), pp. 18-36.
- ATT and T-mobile Merger reading in Kwoka-White.
- Whole Foods and Wild Oats. Description of the case, and some of the discussion (a brief from the case).
- Sirius and XM Radio: reading in Kwoka-White. *New Yorker* article introducing the case.

6. Static oligopoly (Shy 6)

7. Product differentiation (Shy 7)

- Mankiw, N. G., and Whinston, M. D. (1986). “Free entry and social inefficiency” *The RAND Journal of Economics*, 48-58.
- Steven T. Berry and Joel Waldfogel (2001) “Do Mergers Increase Product Variety? Evidence from Radio Broadcasting?”, *The Quarterly Journal of Economics*, Vol. 116, No. 3 (Aug., 2001), pp. 1009-1025.
- Gentzkow, Shapiro and Sinkinson (2014) “Competition and Ideological Diversity: Historical Evidence from US Newspapers?” *American Economic Review*. 104(10). October 2014.

8. Evidence on Horizontal Mergers

- Staples, Office Max Merger (FTC Brief).
- Ashenfelter, Orley C., Daniel S. Hosken, and Matthew C. Weinberg. ”Efficiencies brewed: pricing and consolidation in the US beer industry.” *The RAND Journal of Economics* 46.2 (2015): 328-361.
- Vertical relationships (Shy 14)
 - Vertical Mergers and Double Margins Problem
 - * Tirole pages 169-178. Exercise 4.2 page 176.
 - * Description of Leegin Case.
 - Exclusive Dealing, Chicago View and so-called Naked Exclusion. (Readings from Chapter 3 of Whinston).
 - Evidence on Vertical Mergers
 - * Hortacsu and Syverson (2007) “Cementing relationships: Vertical integration, foreclosure, productivity, and prices?” *Journal of political economy*, 115(2), 250-301.

- * Chipty, T. (2001) “Vertical Integration, Market Foreclosure, and Consumer Welfare in the Cable Television Industry?” *American Economic Review*, 91(3), 428-453.

– Bargaining Approaches

- * Nash-in-Nash Bargaining
- * Grennan, Matthew (2013) “Price Discrimination and Bargaining: Empirical Evidence from Medical Devices?” *The American Economic Review* 103.1 (2013).
- * William Rogerson, 2007, “Vertical Mergers in the Video Programming and Distribution Industry: The Case of Comcast NBCU?” *The Antitrust Revolution*, 7th Edition.
- * Health Care Bargaining Applications
 - Deborah Haas-Wilson, 2007, “Revisiting a Merger: FTC v. Evanston Northwestern Healthcare?”, *The Antitrust Revolution*, 7th Edition.
 - Remedy in Evanston-Northwestern Merger (Court Documents).

9. Dynamic oligopoly and collusion (Shy 6, Tirole pages pages 239-253. Exercices 6.6 and 6.7.)

- Porter (2005), “Detecting Collusion” *Review of Industrial Organization*, Vol. 26, No. 2, March 2005; 147-167.
- Albaek, Svend, Peter Mllgaard, and Per B. Overgaard (1997) “Government Assisted Oligopoly Coordination? A Concrete Case?” *The Journal of Industrial Economics*.
- Hawaiian Airlines Cartel.
- OPEC Cartel and Readings from Smith, James L. 2009. “World Oil: Market or Mayhem?” *Journal of Economic Perspectives*, 23(3): 145-64.

10. Entry and Predatory Pricing (Shy 8 and Tirole Chapters 9.1-9.6. and Section 8.2.)

- Morton, Fiona Scott. “Entry and predation: British shipping cartels 1879-1929.” *Journal of Economics and Management Strategy* 6.4 (1997): 679-724.David
- Genesove and Wallace P. Mullin “Predation and Its Rate of Return: The Sugar Industry, 1887-1914?” *The RAND Journal of Economics*, Vol. 37, No. 1 (Spring, 2006), pp. 47-69.
- Aaron Edlin and Joe Farrell, “The American Airlines Case: A Chance to Clarify Predation Policy?” *Antitrust Revolution*, 5th edition.

Student Information Sheet

(please fill out this page and return by the end of class)

Name:

Hometown:

E-mail address (please PRINT):

Year (Fr/So/Jr/Sr/Grad):

Major(s):

What Economics Classes have you taken:

What market power issue interests you?