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 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

3. Supplementary (you don’t have to purchase these): Jean Tirole, The Theory of Industrial Organization, MIT, 1987 (dated, but the original textbook for the field to some extent).
   Kwoka and White, The Antitrust Revolution: Economics, Competition, and Policy 6th Edition. (there are many editions of this book, and I will be drawing cases out of it)

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 textbook.

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%) Friday March 8th (in class).
- Final (25%) Friday April 17th (in class).
- 4 Problem Sets (25%).
- Class Presentations:
  - Presentation of one of the antitrust cases (20%)
  or
  - Presentation of industry study (20%).
- Participation (10%).

Participation is a good citizenship grade - if you are considerate of your 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, or on Sakai.

Office hours:

I will have an online sign-up sheet for office hours on sites.duke.edu/collardwexler for 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, but it mainly just keeps me in the loop). 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.

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

5. Antitrust and mergers (Shy 1)
   - 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)

8. Evidence on Horizontal Mergers
   - Staples, Office Max Merger (FTC Brief).
   - Vertical relationships (Shy 14)
     - Vertical Mergers and Double Margins Problem
       - Description of Leegin Case.
     - Exclusive Dealing, Chicago View and socalled Naked Exclusion. (Readings from Chapter 3 of Whinston).
     - Evidence on Vertical Mergers

- Bargaining Approaches
  * Nash-in-Nash Bargaining

- Health Care Bargaining Applications
  * Remedy in Evanston-Northwestern Merger (Court Documents).

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

- Hawaiian Airlines Cartel.

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

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?