

Econ 874: Industrial Organization Theory

Fall 2017

Professor Yongmin Chen

Office: Econ 112

Class Time/Location 9:30-10:45 AM. MW; ECON 5

Office Hours: 3:00-5:00 PM on Monday

Course Description: Industrial organization studies the behavior of firms and the functioning of markets as well as the role of public policy in promoting efficiency. The course will cover selected topics in industrial organization theory. Recommended textbooks include: *The Theory of Industrial Organization* by Jean Tirole, MIT Press, and *Industrial Organization: Contemporary Theory and Practice* by Pepall, Richards, and Norman. A good source for references is the *Handbook of Industrial Organization*, Vol. 1, 2, and 3 (2007, Mark Armstrong and Robert Porteus (eds)) surveys the major developments in IO since Tirole.

Grading Grades are based on homework and class participation (20%), a midterm exam (30%), and a term paper (50%); presentation + the paper. You are encouraged to form study groups to discuss homework and lecture materials. Requirements for the term paper will be discussed later.

The course materials are arranged by topics (the topics are listed below), and each topic is usually covered in several classes. Tirole remains the classic graduate textbook, and you are encouraged to read the entire book and work out the exercise problems there (even though we only cover a few parts of the book in the course). You will also be asked to write short reviews/discussions (each review/discussion is 2-3 pages long, double spaced)

A tentative course schedule is attached. There can be changes to this schedule during the semester, which will be announced in class. It is your responsibility to update course information according to announcements made in class.

Course Schedule:

1. Introduction

2. Monopoly Pricing

- x Monopoly pricing: an overview
- x Price discrimination and differential pricing
- x Nonlinear pricing
- x Dynamic pricing (learning consumer demand, durable goods)
- x Product bundling

Readings: Tirole Ch. 1

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- x BDJZHOO DQG 5LRUGDQ 3+LJK DQG GHFOLQLQJ SULFHV
- x *Iñaki Aguirre, Simon Cowan and John Vickers. Monopoly Price Discrimination and Demand Curvature. (5
- x *Bergemann D., Brooks, B., and S. Morris. "The Limits of Price Discrimination," AER, 2015
- x Weyl, E. Glen and Michal Fabinger. "Pass Through as an Economic Tool: Principles of Incidence under Imperfect Competition." Journal of Political Economy, 121(3):552-582, 2013
- x Chen, Y. and M. Schwartz. "The Limits of Price Discrimination in a Two-Sided Market." RAND, 2015.
- x 0F\$IH 0F0LOODQ DQG :K Monopoly, Commodity Bundling, and &RUUHODWLRQ RI 9DGGHIV' 4 - (
- x &KHQ < DQG 0 5LRUGDQ 3URILWDELOLW\ RI 3URGXFW Review, 2013
- x Chen, Y and T. Zhang. 2015. "The Limits of Price Discrimination in a Two-Sided Market." Management Science, 61(1):1-14

Assignment 1 (1) Exercise 1.1.9 in Tirole; (2) Review one starred article; (3) Discuss product bundling practices in an industry, such as the telecommunication industry

2. Product Differentiation and Price Competition

- x A Historical Overview
- x Spatial Models of Product Differentiation
- x The Representative Consumer Approach
- x Discrete Choice Models
- x Applications: Evaluating Horizontal Mergers

Readings: Ch5, 6,7 in Tirole

- x Hotelling, H. (1929). "Stability in Competition", Economic Journal, vol. 39, pp574-1
- x

- x Anderson, S.P., de Palma, A. and Thisse, J. (1992). Discrete Choice Theory of Product Differentiation, Cambridge: The MIT Press.
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Assignment2: (1) Exercise 5.5.9; 7.17.3 in Tirole; (2) Discuss a horizontal merger case.

4. Consumer Search

(a) Price Search in Homogeneous Product Markets

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(b) Product Search in Differentiated Products Markets

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Campus policy regarding religious observances requires that faculty make every effort to deal reasonably and fairly with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, Please make