B.E. International Program

Faculty of Economics, Thammasat University

Course Syllabus

EE481 Industrial Economics

Semester 2/2016 (January – May 2017)

Number of credits: 3 credits (3-0-6)

Instructor:

(Section 046401)
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Office: Room 471 Faculty of Economics
Email: pwrasai@econ.tu.ac.th
Office hours: by appointment
(please email)

Lecture Time and Venue:

(Section 046401)
Wednesdays and Fridays
14.00 – 15.30 hours
Room 304 Faculty of Economics

Course Description:

The class studies behaviors of production unit and relationships among the units under different market structures by analyzing producer behavior, market structure, conduct and performance, the analysis of price theory using game theory as an analysis tool.

Prerequisites: EE311

Course Objectives:

We study behaviors of firms in imperfectly competitive markets. First, the class will start with the methodology used in this study such as S-C-P model and game theory. Then firm strategies in oligopoly market will be examined. The firm strategies would include both pricing and non-pricing strategies. In addition, some regulatory tools to prevent abuse of market-power and promote market efficiency will be covered.

Main Textbooks:

Carlton, D.W. and J.M. Perloff, Modern Industrial Organization, 4th Edition, Global Edition, Pearson, 2015. (abbreviation = CP)

Rasmusen, E., Games & Information, 3rd. Edition, Backwell, 2001.

(abbreviation = R)

Other Textbooks:

*Church, J. and R. Ware, Industrial Organization: A Strategic Approach, International Edition, McGraw-Hill, 2000. (abbreviation = CW)

*used as the required text for some lessons. This book is available free online for non-commercial purposes.

Tirole, J., Industrial Organization, The MIT Press, 1989.

* more advanced materials for those who would like to explore.6.2

Readings:

Bar-Isaac, Heski, Guillermo Caruana and Vicente Cuñat. 2012. "Search, Design, and Market Structure", American Economic Review, 102(2): 1140-60.

http://www.vicentecunat.com/hbgcvc_csd.pdf

Dixit, A., "A Model of duopoly suggesting a theory of entry barriers", The Bell Journal of Economics, 10 No.1, 20-32, 1979.

http://www.stern.nyu.edu/networks/phdcourse/Dixit_A_model_of_duopoly.pdf

Fong, Yuk-fai Fong, "When Do Experts Cheat and Whom Do They Target?", The RAND Journal of Economics, Vol. 36, No. 1 (Spring, 2005), pp. 113-130.

http://ihome.ust.hk/~yfong/RAND_final.pdf

Jia, P., “What Happens When Wal-Mart Comes to Town: An Empirical Analysis of the Discount Retailing Industry”, Econometrica, Vol. 76, No. 6 (Nov., 2008), pp. 1263-1316

https://barwick.economics.cornell.edu/Walmart_EMCA_2008.pdf

Kreps and Wilson,” Reputation and Imperfect Information”, Journal of Economic Theory, 27, 253-279, 1982.

https://pdfs.semanticscholar.org/5151/78a4e8e33e0dde6edd317a61580db29ed646.pdf

Milgrom and Roberts,” Price and Advertising Signals of Product Quality”, Journal of Political Economy, 94 No.4, 1986.

http://web.stanford.edu/~milgrom/publishedarticles/Pricing%20and%20Advertising%20Signals.pdf

Nevo and Wolfram,” Why do manufacturers issue coupons? An empirical analysis of breakfast cereals”, The RAND Journal of Economics, 33 No.2, 319-339, 2002.

http://faculty.wcas.northwestern.edu/~ane686/research/coupons.pdf

Salop, S, “Monopolistic Compeitition with Outside Goods”, The Bell Journal of Economics, Vol. 10, No.1 (Spring, 1979), 141-156. (http://www.tcd.ie/Economics/staff/ppwalsh/papers/Salop.pdf)

Other Readings:

Harvard Business Review (http://hbr.org/)

The Economist (http://www.economist.com/)

Prachachat Online (http://www.prachachat.net/) (หนังสือพิมพ์ประชาชาติธุรกิจ)

Bangkokbixnews (http://www.bangkokbiznews.com/home/) (หนังสือพิมพ์กรุงเทพธุรกิจ)

Teaching Plan

Part I Overview

Overview • Models • Organization	**CP 1 (or CW 1)**
The Firm and Costs • The Firm • Mergers and Acquisitions • Cost Concepts • Economies of Scale • Empirical Studies of Costs Curves • Cost Concepts for Multiproduct Firms	**CP 2 (or CW 2)**

Part 2 Market Structures

Competition	**CP 2 (Self Review)**
Monopoly	**CP 3 (Self Review)**
Dominant Firms with a Competitive Fringe • Why Some Firms Are Dominant • The No-Entry Model • The Dominant Firm-Competitive Fringe Equilibrium • A Model with Free, Instantaneous Entry	**CP 4**
Cartels • Why Cartels Form • Creating and Enforcing the Cartel • Consumer Gains as Cartel Fails • Price-Fixing Laws	**CP 5**
Oligopoly Game Theory • Static Games • Dynamic Games The Cournot Model The Bertrand Model The Stackelberg Model Multi-period Models of Oligopoly • Single-Period Prisoners' Dilemma Game • Infinitely Repeated Prisoners' Dilemma Game • Types of Equilibria in Multi-period Games	**CP 6** **R 1-3** **R 4-6** **CP 6 (or CW 8.2)** **CP 6 (or CW 8.3)** **CP 6** **CP 6 (or CW 10)**
Product Differentiation and Monopolistic Competition • Differentiated Products • The Representative Consumer Model	**CP 7**

• Location Models • Hybrid Models • Estimation of Differentiated Goods Models	

Part 3 Business Practices: Strategy and Conduct

Price Discrimination • Nonuniform Pricing • Incentives and Conditions for Price Discrimination • Types of Price Discrimination • Welfare Effects of Price Discrimination	**CP 9**
Wednesday, March 8, 2017; 14.00-16.00 hrs	

Advanced Topics in Pricing
• Nonlinear Pricing
  o A Single Two-Part Tariff
  o Two Two-Part Tariff
• Tie-in Sales
• Quality Choice
• Other Methods of Nonlinear Pricing
	CP 10

Strategic Behavior
• Noncooperative Strategic Behavior
  o Predatory Pricing
  o Limit Pricing
  o Investment to Lower Production Costs
  o Raising Rivals' Costs
• Cooperative Strategic Behavior
  o Practices That Facilitate Collusions
	CP 11

Vertical Integration and Vertical Restrictions
• The Reasons for and Against Vertical Integration
  o Integration to Lower Transaction Costs
  o Integration to Assure Supply
  o Integration to Eliminate Externalities
  o Integration to Avoid Government Intervention
  o Integration to Increase Monopoly Profits
  o Integration to Eliminate Market Power
• Vertical Restrictions
  o Vertical Restrictions Used to Solve Problems in Distribution
  o The Effects of Vertical Restrictions
  o Banning Vertical Restriction
	CP 12

Part 4 Information, Advertising, and Disclosure

Information • Why Information is Limited • Limited Information about Quality • Limited Information about Price • Providing Consumer Information Lowers Price	**CP 13**

Advertising and Disclosure
• Information and Advertising
   o Promotion
   o “Search” Vs. “Experience Goods”
   o Informational Vs Persuasive Advertising
   o Profit-Maximizing Advertising
• Effect of Advertising on Welfare
   o Price Advertising Increases Welfare
   o Advertising to Solve the Lemons Problems
   o When Advertising is Excessive
• False Advertising
	CP 14 (or CW 17)

Part 5 Dynamic Models and Market Clearing

Patents and Technological Change • Patents, Copyrights, and Trademarks • Incentives for Inventions Are Needed • Patents, Prizes, Research Contracts, and Joint Ventures	**CP 16 (or CW 18)**

Part 6 Government Policies and Their Effects

Competition Laws and Policy	**CP 19 (or CW 19)**
Regulation and Deregulation	**CP 20 (or CW 24)**

Evaluation Methods:

Homework*	10%
Mid-term Examination	35% **(Wednesday, March 8, 2017; 14.00-16.00 hrs.)**
Final Examination	55% **(Wednesday, May 17, 2017: 09.00-12.00 hrs.)**

*Late homeworks count as 50% of your actual marks

Important Dates:

Second semester begins	January 16, 2017
Period of withdrawal without "W"	January 16 - 30, 2017
Mid-Term Examination Period	**March 6 - 11, 2017**
Course withdrawal with "W"	March 22-27, 2017
Last day of class	May 13, 2017
Final Examination Period	**May 15-29, 2017**