Course Outline

"Industrial Economics" (EC3313) – Spring Term 2009-10

Course Code and Title

Industrial Economics (EC3313)

Lecturer

Sotiris Georganas

Aims

EC3313 is a full-year third year undergraduate course in industrial economics. Its aim is to familiarize students with a broad range of the methods and models applied by economists in the analysis of firms and industries. A broader goal is that students who take the course will, by working extensively with theoretical models, acquire analytical skills that are transferable to other kinds of intellectual problems.

Prerequisites

Students should have a grounding in microeconomics and mathematics, including calculus. A large part of the course will consist of analyses of formal economic models. Therefore, it is important that students who intend to take this course, and who feel that they might have forgotten things from their previous mathematics studies, rehearse the material from Quantitative Methods I and II.

Learning Outcomes

Upon completion of the course students should:

- Understand basic models of the behaviour of firms and industrial organization and how they can be applied to policy issues.

- Be able to manipulate these models and be able to solve analytically problems relating to industrial economics.

- Be able to apply the models to important policy areas while being aware of the limitations of the theory.

- Be familiar with the history of competition policy and some important American and European competition law.

- Be familiar with the functioning of different experimental market institutions and the key results of these experiments

Course Delivery

The course will be delivered through a one-hour lecture and a one-hour seminar each week. Specific learning outcomes and prescribed reading are provided for each session of the course. Seminars will provide an opportunity for further investigation and manipulation of models, and to solve assigned mathematical problems.

The instructor is available for consultation (either individually, or in small groups) during advertised office hours or by appointment.

There is a course website at http://moodle.rhul.ac.uk

Assessment (autumn and spring term)

- 3-hour unseen examination, which contributes 100% of the final mark and is taken during the Exam Term (May/June). The exam will test your knowledge and understanding of the material covered in the course; your ability to manipulate diagrammatic and algebraic versions of the models you have learned; and your ability to critically appraise models and their application.

- Formative assessment will consist of two take-home essays and two in-class tests taken during the year. The dates for these are laid out in the current Student Handbook. You will be provided with standardized feedback on these pieces of work.

Reading

The main course text is:

J. Church and R. Ware, Industrial Organization: A Strategic Approach, first edition, McGraw-Hill, 2000.

A pdf file version of this book is available free of charge on the Internet at the following address (a link is also provided on the course home page):

http://homepages.ucalgary.ca/~jrchurch/page4/page5/page5.html

You must respect the "Terms and Conditions of Use" that can be found on the first page of the downloadable document. Among other things, these say that "[The pdf file version of the book] is available for personal and noncommercial use. You are permitted by these Terms and Conditions of Use to make one stored electronic copy and one paper copy for your personal, noncommercial use."

The book is currently out of print, but those of you who prefer a printed "real" book may be able to find a second hand copy to buy (for example, at amazon.co.uk).

The other texts we will use are:

Cabral, L.M.B., "Industrial Organization" MIT Press, 2000
Varian, H., "Intermediate Microeconomics", Norton, 4th ed.

Optional textbook for those who are strong in math and game theory:

Tirole, Jean The theory of **industrial organization**

Weekly timetable for Spring Term

Lecture 11 - 12:   Non-linear Pricing and Price discrimination (C-W Ch. 5 and Varian)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

1. Know what economists mean by non-linear pricing
2. Understand the difference between first, second, and third degree price discrimination
3. Understand some of the welfare implications of non-linear pricing.

Lecture 13 - 14:   Product Differentiation (C-W Ch. 11)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

1. Know what is meant by vertical and horizontal product differentiation
2. Understand firms' incentives for product differentiation
3. Understand the role of product differentiation in competition

Lecture 15:   Collusion (C-W Ch. 10)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

1. Be familiar with how collusion can be understood using infinitely repeated games.
2. Formally be able to apply the concept of the subgame perfect Nash equilibrium to the problem of collusion.
3. Understand the key role played by the discount factor.

Lecture 16:   Midterm Test

Lecture 17:   Advertising (C-W Ch. 17, Cabral Ch 13)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

1. Know what economists mean by persuasive and informative advertising.
2. Understand the problem of analyzing the effect of persuasive advertising on welfare.
3. Understand the distinction between search goods and experience goods.
4. Be familiar with idea that advertising can be informative by acting as a quality signal.

Lecture 18:   Research and Development (C-W Ch. 18, Cabral Ch. 16)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

1. Understand the difference between the private and social value of innovation.
2. Be familiar with the notion of a patent race.
5. Understand what role can potentially be played by policy in shaping the incentive for firms to undertake R&D.

Lecture 19:   Behavioral Industrial Organization

Lecture 20:   Review