

Economics 278  
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Spring 2014

Course Objectives

Industrial Organization is the study of industrial structure and practice. Because many of the most interesting applications are found in the context of non-competitive structures, much of our study will take up a detailed analysis of monopoly and oligopoly—a deep dive into the microeconomics of non-competitive market strategies. Topics covered include industrial integration, advertising, durable goods production strategy, intellectual property rights, and the role and effects of government intervention.

In addition to deepening your understanding of microeconomics and its applications in business practices, the research proposal paper will give you an opportunity to develop further your quantitative reasoning in the context of written arguments. (That assignment also mimics the comps prospectus, so it will give you a chance to think about how to frame research questions.)

Required Reading

The primary text for this course will be Carlton and Perloff's *Modern Industrial Organization*, 4<sup>th</sup> ed. It is available in the bookstore. Chapters relevant to each lecture are provided in the Course Outline below. In addition to this text, a few additional articles and book chapters will be required. These are noted in the outline. Be prepared to discuss these additional readings when they are assigned.

Office Hours (321 Willis)

Tuesday: 9:00-12:00  
Wednesday: 2:00-4:00  
Friday: 12:00-1:00  
Or by appointment

Grading

A grade will be given on the basis of engagement in the class (10%), two in-class midterms (25% each), a paper due on the last day of class (10%), and a cumulative final (30%).

Paper Assignment

Find an article in a newspaper or a post on a blog that relates to one or more of the models studied in this class. In 3 pages (12 point Times New Roman font, 1-inch margins), analyze the subject of the article/post by applying the relevant model(s). You may want to include a graph depicting the model. Please submit a copy of the article/post with your paper.

Tip: The choice of your topic will be important to the success of your paper. You want to choose something that is clearly connected to the economic models. But if the article lays out all of the connections to economic theory, it leaves little for you to do. So, a good article will be a clear example of what we talked about without a commentary making all of those theoretical connections. This tip is particular important if you are looking at blogs; the point of many economics blogs is to do this very assignment!

## Tentative Course Outline

### **Introduction and Review**

1      What is IO? Why do we have Firms?

2      Cost Functions **Chapter 2**

- Review of 111
- Economies of Scale
- Economies of Scope

Supplemental reading: [“Ten Best \(and Worst\) Mergers of All Time”](#)

3      

- Survivorship studies
- Extension to multi-product firms

Supplemental reading: Stigler, George J. 1958. “The Economies of Scale,” *Journal of Law and Economics*, 1(1): 54-71.

### **Market Structure**

4      Competition **Chapter 3**

- Short run and long run equilibria

Supplemental reading: [Excerpt from Schumpeter’s \*Capitalism, Socialism, and Democracy\*](#).

Beginning in the middle of page 82 at “Capitalism, then, is by nature a form or method of economic change...” and ending in the middle of page 85 at “...this will in the long run enforce behavior very similar to the perfectly competitive pattern.” (Note: The page number comes at the *bottom* of the respective page.)

5      Monopolies and Dominant Firms **Chapter 4**

- Single-Price Monopolist

Supplemental reading: Harberger, Arnold C. 1954. “Monopoly and Resource Allocation,” *American Economic Review*, 44(2): 77-87.

6      

- Dominant Firm with Competitive Fringe
- Cartels **Chapter 5**

7      

- Price-Discriminating Monopolist **Chapters 9-10**

Supplemental reading (Moodle): [Deneckere, Raymond J. and McAfee, R. Preston. 1996. “Damaged Goods,” \*Journal of Economics and Management\*, 5\(2\): 149-174. \(You may stop at p. 161.\)](#)

8      

- Tie-In Sales

9      Oligopoly **Chapter 6**

- Single- and Multi-Period Pricing Models

Supplemental reading: Lave, Lester B. 1962. "An Empirical Approach to the Prisoners' Dilemma Game," *Quarterly Journal of Economics*, 76(3): 424-436.

10

**MIDTERM #1: COMPETITION AND MONOPOLY**

11 • Strategic Behavior **Chapter 11**

12 • Strategic Behavior (Cont.)

13 Vertical Integration & Vertical Restrictions **Chapter 12**

Supplemental reading (Moodle): Econoblog post "Can Fixed Minimum Retail Prices be a Benefit for Consumers?" and [summary of the Leegin case and outcome](#)

14 Monopolistic Competition **Chapter 7**

15 Industry Structure and Performance **Chapter 8**

16 • Regulation of Monopolies **Chapter 20**  
• Creating Monopolies

17 • Deregulation

Supplemental reading (Moodle): Ch. 2 from Robyn, Dorothy. 1987. *Braking the Special Interests: Trucking Deregulation and the Politics of Policy Reform*. Chicago: University of Chicago Press.

18 Catch-up Day

19

**MIDTERM #2: ALL OF MARKET STRUCTURES**

**Advanced Topics**

20 Patents and Technological Change **Chapter 16**

21 Patents (Cont.)

22 Trade **Chapter 18**

23 Limited Information **Chapter 13**

24 Limited Information (Cont.)

25 Advertising **Chapter 14**

26 Advertising (Cont.)

27 Durable Goods **Chapter 15**