

UNIVERSITY of HOUSTON

Industrial Organization and Antitrust Policy– Econ 4376

Fall Semester – 2016

1:00 pm - 2:30 pm, Tuesday - Thursday

McElhinney Hall, Room 111

Contact information

Instructor:

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Course Description

Welcome to Economics 4376! This course will cover the basic tools and issues in the field of industrial organization. While the standard competitive model is an extremely powerful tool, it often fails to characterize much of what is observed in many markets. Industrial organization studies the interaction of firms and consumers in real world markets that fall outside of the standard competitive model. Prominent topics will include oligopoly, cartel behavior, anti-competitive practices, anti-trust and regulation. This course will strongly emphasize real world case studies, but we will develop theoretic models that will help us analyze the behavior we see in the case studies. In addition, the secondary goal of this class is to introduce you to academic research. You will learn how to use library resources, statistical software for data analysis and write effective summaries of case studies.

Prerequisites

Students are expected to have taken an introductory course in probability and statistics such as Econ 2370 and have taken Intermediate Microeconomics, ECON 3332. These prerequisites will be strictly enforced. You will need to be familiar with economic models of perfect competition and monopoly, and the basic concepts of statistics, such as mean, variance, covariance, correlation, confidence intervals, etc.

You will find this class extremely more rewarding if you took an introductory econometrics class, such as ECON 3370.

Textbook

Mainly, we will discuss a number of journal articles in the field of industrial organization. There is no textbook for this class which covers all discussed topics. Attending classes is a must. The suggested textbook for the course is Modern Industrial Organization by Dennis Carlton and Jeffrey Perloff (ISBN-10: 0321180232, 4th Edition). Some chapters of the book will be posted in Blackboard for your convenience (in accordance with copyright laws).

Course Requirements

This course will be time intensive. You should come prepared to discuss the readings in detail. Assuming that the size of the course is manageable, a significant amount of class time will be devoted to the discussion of the readings.

There will be 4 extensive homework assignments and 3 midterms. There will be one optional assignment, participation in a class tournament for additional credit (worth 15 points in your total a homework grade). In addition, you will need to give a class presentation (of about 10 minutes) of one of your homeworks. This is worth 10 points in your overall homework grade.

All homework assignments will be done online through the University of Houston Blackboard Learn website. Each student is required to enroll.

Homework assignments have multiple goals. First, they help you internalize the economic models we discuss in class. Second, you will need to do your own work to get more hands-on experience with research. You will gather data; analyze data using a statistical software; collect, read and summarize newspaper articles and academic papers on specific questions. All these skills will equip you to successfully start your own research in the future.

Midterms will be given in class on the dates listed in the calendar. There are no makeups for midterms 1 and 2. If a student, for whatever reason, is unable to take one of these midterms at the scheduled time, I will base the student's final grade on the other course components in the manner described below in the section labeled "Course Grade." Specifically, in such a case, "Weighting 1" or "Weighting 2" will be used depending on whether the student missed midterm 1 or midterm 2.

All exams are open book and open notes; bring a calculator. No computers of any kind, cell phones or programmable calculators. No cooperation is allowed during the tests. Academic misconduct will not be tolerated and any instances of it will be dealt with according to the appropriate University channels.

If you disagree with the grading of a midterm, submit it for further review. You must submit a written argument for why you deserve more points for the specific question(s) you would like re-graded. If you do not specify this, the entire test will be regraded and it is possible that you may lose points. You must submit these arguments within one week after the midterm has been returned.

Class Website

All assignments and handouts will be posted on the class website in Blackboard Learn. Go to <http://www.uh.edu/blackboard> and click the white "Blackboard Learn" button. Log in with your CougarNet ID and password.

Statistical software package

It is strongly encouraged that you use *Stata*, a statistical software package, for your assignments. Public versions of *Stata* are available at selected locations on UH campus. Students registered for this class may use the six computers in the Economics Department Undergraduate Computer Lab in room 208 E McElhinney (hours: M-Th, 8am-4:30pm, F 9am-2pm).

UH has an agreement called "GradPlan" with *Stata* that allows students to purchase various products at much reduced rates directly from *Stata*. The current version is *Stata 14*. For more detail and to order *Stata* online see the GradPlan website indicated below.

<http://www.stata.com/order/new/edu/gradplans/gp-direct.html>

We won't devote much class time to learning how to use this software. I will provide a guide to get you started with the software if you did not take Introduction to Econometrics, but it is expected that you will spend time to learn the basics on your own.

Grading

The overall numerical course score will be determined by weighting the course components three different ways and using the highest weighted score. You are required to submit all homework assignments on time. Late assignments receive zero points.

Course Component	Weighting 1 (MT1 is lowest score)	Weighting 2 (MT2 is lowest score)	Weighting 3 (MT3 is lowest score)
Problem Sets	40	40	40
Midterm 1	0	30	20
Midterm 2	30	0	20
Midterm 3	30	30	20
Total	100	100	100

The numerical course grade will be converted to a letter grade according to the following scale:

92%-100%	A
90%-91%	A-
88%-89%	B+
82%-87%	B
80%-81%	B-
70%-79%	C+
50%-69%	C
40%-49%	C-
38%-39%	D+
33%-37%	D
30%-32%	D-
-29%	F

There is no curve for the class. This means that you are not competing with other students, and you will always know exactly where you stand in the class based on your performance.

Course Policies

The material we will be covering is difficult. You will probably read the papers more than once to understand the readings. Don't fall behind, and make sure to ask me for help when you don't understand a concept. I am here to help!

You may work on problem sets with other students in a study group, but each student must write out and hand in his or her own answers. If you work in a study group, you must also write the names of the other students in your group at the beginning of your answers.

Answers to both homework and exam questions will be graded not only on the correctness of the answer, but also on the clarity of the explanation. Answers with a correct answer alone will not receive full credit. Complete and logically consistent answers are needed to receive full credit.

I don't negotiate about grades - ever. There is no curve for the class. Your grades will be based on the syllabus.

Come prepared - do the readings beforehand. Not all material will be available on Blackboard or in your textbook. Part of the class requirement is to be familiar with the use of library resources. You will need to learn how to use UH Online library resources and access the assigned papers.

You will read current research papers in economics, including some top notch empirical papers. You will not understand everything in these papers, nor will I expect you to. The extent to which you need to know the assigned papers will be made clear during the lectures.

Adhere to the university's academic honesty policy (it is described in the Student Handbook as well as <http://www.uh.edu/academics/catalog/policies/academ-reg/academic-honesty/>).

If you have special learning needs, please contact me in the first two weeks of classes.

I prefer office hours to emails.

Tentative Course Schedule:

Note: A * next to a paper indicates that you are expected to understand the entire paper. Papers with no * will be discussed during class and it will be clear to what extent you need to understand them.

Class #	Date/Day			Topic	C-P Ch. #	Problem Sets
1	Aug	23	T	Welcome to IO! Introduction and syllabus		
2		25	Th	Competition (Review) Monopoly (Review) Welfare: Perfect Competition vs. Monopoly	Chapter 3, 56-73, 82-87. Chapter 4, 88-107	
3		30	T	The Firm Mergers and Acquisitions	Chapter 2, 11-36.	
4	Sept	1	Th	Borenstein, Severin (1999): "Airline Mergers, Airport Dominance, and Market Power," <i>AEA Papers and Proceedings</i> , 400-404.*		
5		6	T	Wild Oats Markets vs. Whole Foods. Please read the following documents posted in Blackboard: -Expert Report of Kevin Murphy on Whole Foods/Wild Oats* -Court Decision on Whole Foods/Wild Oats*		

				-Appellate Decision on Whole Foods/Wild Oats*		
6		8	Th	PS 1 Discussion / Students' presentations		PS 1 Due
7		13	T	Oligopoly Nash Equilibrium, The Cournot Model	Chapter 6, 157-171	
8		15	Th	The Bertrand Model	Chapter 6, 171-176	
9		20	T	Linear Regression Models I		
10		22	Th	Linear Regression Models II Cartels	Chapter 5, 122-154	
11		27	T	Bajari, P. and L. Ye (2003): "Deciding between competition and collusion," <i>The Review of Economics and Statistics</i> , 85(4), 971-989. Hay, G. A. and D. Kelley (1974): "An Empirical Survey of Price Fixing Conspiracies," <i>Journal of Law and Economics</i> , 17(1), 13-38.*		
12		29	Th	PS 2 Discussion / Students' presentations		PS 2 Due
13	Oct	4	T	Review for Midterm I		
14		6	Th	Midterm I		
15		11	T	Product Differentiation	Chapter 7, 200-220.	
16		13	Th	Petrin A. (2002): "Quantifying the Benefits of New Products: The Case of the Minivan", <i>Journal of Political Economy</i> , 110, 705-729.		
17		18	T	Industry Structure and Performance Petrin, A. and A. Goolsbee (2004), "The Consumer Gains from Direct Broadcast Satellites and the Competition with Cable TV," <i>Econometrica</i> , 72(2), 351-381. Download from Blackboard: National Cable TV and Telecommunications Association, 2008 Industry Review*	Chapter 8, 245-268.	
18		20	Th	Limited Information I Saeedi, M.(2016):"Reputation and Adverse Selection: Theory and Evidence from eBay," http://econ.ohio-state.edu/saeedi/research.html K. Baylis and J. M. Perloff (2002): "Price Dispersion on the Internet: Good Firms and Bad Firms," <i>Review of Industrial Organization</i> , 21(3), 305-324.*	Chapter 13, 440-452.	
19		25	T	Limited Information II Goeree ,M.S. (2008): "Limited Information and Advertising in the US Personal Computer	Chapter 13, 462-469.	

				Industry,” <i>Econometrica</i> , 76(5), 1017–1074.		
20		27	Th	PS 3 Discussion / Students’ presentations		PS 3 Due
21	Nov	1	T	Midterm II Review		
22		3	Th	Midterm II		
23		8	T	Lewis, G. (2011): “Asymmetric Information, Adverse Selection and Online Disclosure: The Case of eBay Motors”, <i>American Economic Review</i> , 101(4), 1535–1546.*		
24		10	Th	Bajari, P. and A. Hortacsu (2004): “Economic Insights from Internet Auctions”, <i>Journal of Economic Literature</i> , 457-486.*		
25		15	T	Research and Development, Patents and Copyrights	Chapter 16, 525-539	
26		17	Th	Leung, T.C. (2013): “What is the True Loss Due to Piracy? Evidence from Microsoft Office in Hong Kong,” <i>The Review of Economics and Statistics</i> , 95(3): 1018–1029		
27		22	T	PS 4 Discussion / Students’ presentations		PS 4 Due
28		24	Th	No Class: Thanksgiving		
29		29	T	Current topics in IO Discussion of final exercise		
30	Dec	1	Th	Midterm III		