

Advanced Industrial Economics, GM0716

Spring 2018

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Course Guide

AIO

2018

Table of Contents

Outline	3
Course Themes	5
Teaching	5
Problem Sets	5
Empirical Labs.....	5
Case Competition	6
Competition policy cases	6
Examination	7
Literature	7
Required Reading	7
Reference Literature.....	8

Outline

MARKET POWER			
1	Market Power	HMW Ch. 19	JS
2	Oligopoly with Product Differentiation	HMW Ch. 11	JS
3	Product Choice	HMW Ch. 15	JS
4	Entry	HMW Ch. 16	JS

ESTIMATING MARKET POWER			
5	Identification of Oligopoly	HMW Ch. 14.1-2 Gensove et al	JS
6	Identification of Entry	HMW Ch. 14.3 Bresnahan & Reiss	JS
7	Oligopoly	Problem set 1	JS
8	Measuring market power	Problem set 2	JS
9a-b	Identification of Oligopoly	Lab 1	LC
10a-b	Identification of Entry	Lab 2	LC

COMPETITION POLICY			
11	Mergers	HMW Ch. 21	JS
12	Cartels	HMW Ch. 20	JS
13	Case Competition with RBB		JS
14	Cartels	Case 1	JS
15	Mergers	Case 2	JS
16a-b	Cartel Detection	Lab 3	MK
17	Identification of Differentiated Demand	Lecture notes	MK
18a-b	Merger Simulation	Lab 4	MK

Note that the lectures do not necessarily follow this order.

HMW = How Markets Work

LC = Li Chen

MK = Maksym Khomenko

JS = Johan Stennek, responsible for the course

Course Themes

The course is concerned with three broad themes:

1. What determines the strength of price competition? We will among other things discuss the importance of market concentration, product differentiation and productivity differences between firms.
2. How can we empirically measure the strength of price competition? We will discuss estimation of demand systems as well as oligopoly and entry models.
3. The course also introduces the basic elements of competition policy, including empirical techniques used by the parties in competition cases.

Teaching

During this course, you will focus on solving problems, including theoretical problem sets, empirical labs and competition policy cases. The reading requirement will therefore be modest, mainly lecture notes and a couple of original research articles. There will be no main textbook. But if you need reference literature, you are recommended to use any of the books listed below.

Problem Sets

The problem sets may include more exercises than we have time to discuss in class. The questions marked by * will be given priority. But there will also be time for you to ask questions about the other exercises.

You are very much encouraged to collaborate in groups, to compare and discuss your solutions to both the problem sets and the quizzes that you are working on. But this is up to you to decide.

The problem sets will not be graded, but one question on the exam will be identical to a question (not necessarily marked with *) from the problem sets.

It is very important that you solve the problem sets before you come to class. Otherwise the whole point with this form of teaching is lost. The goal is to exercise your analytical skills, not your ability to replicate the solutions offered. Think of class only as an opportunity to verify that your own solutions are correct.

It is your analytical skills that will be tested on the exam.

Empirical Labs

All students are required to form groups of 2-3 people. Please inform Maksym by email about your group on May 9 at the latest.

Each group will prepare a written report of no more than six pages. The reports are e-mailed to Maksym in PDF format at the following dates:

Lab 1: Oligopoly (April 5) - Deadline (April 19, 23:59)

Lab 2: Entry (April 7) - Deadline (April 21, 23:59)

Lab 3: Cartels (April 17) - Deadline (May 1, 23:59)

Lab 4: Mergers (April 19) - Deadline (May 4, 23:59)

The labs will be posted on the course web one day in advance.

Case Competition

This year we have invited RBB Economics to come and give a Case Competition on merger evaluations (Spring 2018). RBB Economics is one of the consultancy firms that are employed by companies that under investigation by the competition authorities. This event will give you some additional sense of what it means to participate in a competition case in a real world situation.

You should already have received an invitation by email. Please don't forget to respond.

Competition policy cases

We will use two meetings to discuss competition policy cases. The procedure is as follows:

1. Form groups. You should ideally work in the same groups as you worked with during the empirical labs.
2. Identifying an interesting merger or cartel case (see instructions below). The different groups should ideally read different cases. Therefore your choice of case is subject to Johan's approval.
3. Read the case. Reflect on the questions below.
4. Prepare a short report (maximum 10 normally spaced pages). Email the report as a pdf-file to Johan the day before class (the deadline is 23:59).
5. Present the report in class. Prepare a presentation of about 30 minutes. You may use power point presentations if you wish.

Choice of case:

The most spectacular cases are of course the ones where the competition authority or court either finds that the firms were guilty of a cartel agreement or that the competition authority or court prohibits an anticompetitive merger.

To identify an interesting case you can browse the Internet. To find the decision go to <http://ec.europa.eu/competition/elojade/isef/> Alternatively, you can focus on one of the following cases.

Mergers:

- Commission's decision to block the *Volvo/Scania* merger.
- Commission's decision to block the *GE/Honeywell* merger.

Cartels:

- Commission's decision in the *Lysine* cartel case.
- Commission's decision in the *Vitamines* cartel case.

Questions:

The questions you should focus on include the following:

1. What is the issue in legal and economic terms?
2. What decision was taken?
3. How did the Commission or the Court reach its decision?
 - a. What were the key aspects?
 - b. How were these aspects analyzed?
 - c. What information about the market and the firms was important for the decision?
 - d. Is there any use of economic theory or evidence in the decision?
 - e. What aspects talked in favor of the decision and what aspects talked in the opposite direction?
4. Was it a good decision?
 - a. Was it a good decision from an economic welfare point of view?
 - b. Did the Commission or the Court have access to all the important information?
 - c. Did the Commission or the Court use good economic reasoning?
 - d. Was there any public debate following the decision?
 - e. What is your view?

Examination

Written exam: 60%

Empirical labs: 30%

Students' presentations of cases: 10%

One question on the exam will be identical to a question from the problem sets.

Please come and talk to me, if you have questions about your marks.

Literature

Required Reading

- *How Markets Work*

- Bresnahan, Timothy and Peter Reiss (1991) "Entry and Competition in Concentrated Markets," *Journal of Political Economy*, pp. 977- 1009.
- Genesove, D. and W. P. Mullin, (1998) "Testing Static Oligopoly Models: Conduct and Cost in the Sugar Industry, 1890-1914." *RAND Journal of Economics* 29, 355-377.

Reference Literature

If you need reference literature, you may use one of the following textbooks, which should all be available at the library. They are listed in order of increasing analytical depth:

- Belleflamme, P., & Peitz, M. (2015). *Industrial organization: markets and strategies*. Cambridge University Press.
- Cabral, Luis M. B. (2000) '*Introduction to Industrial Organization*', Massachusetts Institute of Technology, Cambridge Massachusetts.
- Davis, P., & Garcés, E. (2009). *Quantitative techniques for competition and antitrust analysis*. Princeton University Press.
- Pepall, Lynne, Dan Richards and George Norman (2008) "*Industrial Organization: Contemporary Theory and Empirical Applications*." Blackwell Publishing, Oxford, UK.
- Tirole, Jean (1989) "*The Theory of Industrial Organization*." MIT Press, Cambridge, Massachusetts.