

440.638.51: Economics of Industry and Public Policy
W 6:00-8:45pm JHU, Dupont Circle, Washington, DC

Chris Garmon
Phone: 202-326-3465 (w), 443-691-3816 (c)
E-mail: cgarmon@ftc.gov
cjrharmon@yahoo.com

Class Web Site: webct.jhu.edu
Office Hours: tbd

In this course, we will study markets and the laws and regulations used to ameliorate some of their imperfections. Our focus will be on the problems caused by market structure and “market power.” We will study many of the economic models used to explain how markets work and what is necessary for market power to exist. Then we will explore how regulators and private litigants have tried to eliminate or control market power, particularly through antitrust law.

General Policies:

Grades:

Each student’s course grade will be based on the following weights:

Mid-Term Exam	35%
Project	25%
Final Exam	40%

Mid-Term Exam:

The mid-term exam will be on October 17. If you cannot attend class on this day to take the exam, you must notify me by October 10 to schedule an alternate time to take your exam before October 17. **If you miss the exam without previously scheduling an alternate time to take the exam, you will receive a zero on the exam.** (If you are absent from the exam due to illness, you will need a doctor’s note to reschedule the exam to an alternate date.)

Project:

The project is due on November 28. For your project, you can either (1) investigate the relationship between hospital competition and price using California hospital financial data or (2) perform a “Guidelines-style” analysis of a recent merger.

A detailed description of both projects will be handed out toward the beginning of the course. **Projects that are handed in late will receive a grade of zero. No extensions will be given.**

Final Exam:

The final exam will be on December 12. If you cannot attend class on this day to take the exam, you must notify me by December 5 to schedule an alternate time to take your exam before December 12. **If you miss the exam without previously scheduling an alternate time to take the exam, you will receive a zero on the exam.** (If you are absent from the exam due to illness, you will need a doctor’s note to reschedule the exam to an alternate date. In this case, you will receive an incomplete in the course until you can take the exam.)

Academic Honesty

The project and exams should reflect your work and your work alone. Everything you submit must be in your own words. In other words, do not quote other sources, even if

those sources are properly cited. **If two or more students submit identical or virtually identical projects (even if the overlap is only on a portion of the assignment), all of the students involved will receive the same penalty: A grade of F for the course**
Any source, other than the textbook and class notes, used when completing an assignment must be publicly available at no charge to all students and must be properly cited. See the Advanced Academic Programs' Code of Conduct for a detailed discussion of academic misconduct: <http://www.jhu.edu/advanced/ethics/index.html>

Grading Scale:

All assignments and exams will be graded on a scale of 0-100. At the end of the course, your overall grade will be converted into a letter grade as follows:

96+ => A+ 91-95 => A 86-90 => A- 81-85 => B+ 76-80 => B
66-75 => B- 51-65 => C 50 and below => F

Prerequisites:

440.601, 440.605, and 440.606 or equivalent. A good working knowledge of multivariate calculus is also necessary for success in this course.

Attendance:

Regular attendance is not required, but is strongly encouraged. The tests will be based on what is covered in class (and some of what will be covered is not in the textbook), so regular attendance is almost certainly necessary for successful performance.

Registering for this class means you have agreed to all of the policies set forth in this syllabus.

Required Text:

Cabral, Luis M. B., Introduction to Industrial Organization, The MIT Press, 2000
(available at amazon.com for \$44.01

http://www.amazon.com/gp/product/0262032864/sr=8-1/qid=1155213112/ref=pd_bbs_1/002-4484176-3201648?ie=UTF8)

Other Required Reading: (on reserve (password:GAR638) or available on the internet w/ link)

California Electricity Deregulation:

Joskow, P. (2001), "California's Electricity Crisis," *Oxford Review of Economic Policy*, v17(#3), pp. 365-388

The Petroleum Industry and OPEC:

"The Petroleum Industry: Mergers, Structural Change, and Antitrust Enforcement," FTC Staff Report, August 2004

<http://www.ftc.gov/os/2004/08/040813mergersinpetrolberpt.pdf>

Product Differentiation:

Salop, S. (1979), "Monopolistic Competition with Outside Goods," *The Bell Journal of Economics*, v10(#1, Spring), pp.141-156

Werden, G., Froeb, L., and Tardiff, T. (1996), "The Use of the Logit Model in Applied Industrial Organization," *International Journal of the Economics of Business*, v3(#1), pp.83-105

Collusion:

Conner, J. (2002), "The Food and Agricultural Global Cartels of the 1990s: Overview and Update," Purdue University Worker Paper #02-4
http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=5488&ftype=.pdf

Hospital Competition:

(The first four articles are required for those doing the hospital empirical project; only the last two articles are required reading for everyone.)

Lynk, W. (1995), "Nonprofit Hospital Mergers and the Exercise of Market Power," *Journal of Law and Economics*, v38, pp. 437-461

Keeler, E., Melnick, G. and Zwanziger, J. (1999), "The Changing Effects of Competition on Non-Profit and For-Profit Hospital Pricing Behavior," *Journal of Health Economics*, v18, pp. 69-86

Dranove, D. and Ludwick, R (1999), "Competition and Pricing by Non-Profit Hospitals: A Reassessment of Lynk's Analysis," *Journal of Health Economics*, v18, pp. 87-98

Lynk, W. and Neumann, L. (1999), "Price and Profit," *Journal of Health Economics*, v18, pp. 99-116

Capps, C., Dranove, D., Greenstein, S., and Satterthwaite, M. (2002), "Antitrust Policy and Hospital Mergers: Recommendations for a New Approach," *The Antitrust Bulletin*, Winter 2002, pp. 677-714

Generic Pharmaceuticals:

"Generic Drug Entry Prior to Patent Expiration" FTC Staff Report, July 2002
<http://www.ftc.gov/os/2002/07/genericdrugstudy.pdf>

Sports and Antitrust:

Siegfried, J. and Burba, M. (2004), "The College Football Association Television Broadcast Cartel," *The Antitrust Bulletin*, v49, #3(Fall), pp.799-819

Szymanski, S. (2003), "The Economic Design of Sporting Contests," *Journal of Economic Literature*, v41, #4(Dec.), pp. 1137-1187

Cable Television Bundling:

"Further Report on the Packaging and Sale of Video Programming Services to the Public," FCC Report, February 2006

http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-263740A1.pdf

Leegin v. PSKS:

Leegin Creative Leather Products, Inc. v. PSKS, Inc., Supreme Court of the United States, June 2007,

<http://www.supremecourtus.gov/opinions/06pdf/06-480.pdf>

Optional Reading: (on reserve, if available)

Industrial Organization

Carlton, Dennis W. and Perloff, Jeffrey M., Modern Industrial Organization, 4th ed., Addison Wesley Longman, 2005

Church, J.R. and Ware, R, Industrial Organization: A Strategic Approach, McGraw-Hill, 2000 (out of print)

Waldman, Don E. and Jensen, Elizabeth J., Industrial Organization: Theory and Practice, 2nd ed., Addison Wesley Longman, 2001

Game Theory

Dixit, Avinash K. and Nalebuff, Barry J., Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life, W.W. Norton & Co., 1991
Gibbons, Robert, Game Theory for Applied Economists, Princeton Univ. Press, 1992 (more rigorous than Dixit/Nalebuff, but still geared toward game theory novices; includes excellent discussions of oligopoly models and bargaining)

California Electricity Deregulation:

Joskow, P. and Kahn, E. (2002), "A Quantitative Analysis of Pricing Behavior in California's Wholesale Electricity Market During Summer 2000," *The Energy Journal*, v23(#4), pp.1-35

Lysine Cartel:

Eichenwald, K. The Informant, Broadway Books (2001)

Cable Bundling:

"The a la Carte Paradox: Higher Consumer Costs and Reduced Programming Diversity," Booz Allen Hamilton Report, July 2004

<http://ncta.com/ContentView.aspx?hidenavlink=true&type=lpubtp1&contentId=572>

"Report on the Packaging and Sale of Video Programming Services to the Public," FCC Report, November 2004

http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-254432A1.pdf

Microsoft:

Evans, D., Nichols, A., and Schmalensee, R. (2005), "U.S. v. Microsoft: Did Consumers Win?" NBER Working Paper 11727

<http://www.nber.org/papers/w11727>

Course Calendar and Topics:

(Dates and topics are approximate and may be adjusted depending on our progress. Each class period I will indicate the readings that are required for the subsequent class period.)

Week 1: Introduction; Review of Costs and Competition (9/5)

Week 2: Monopolies and Market Power; Natural Monopoly Regulation (9/12)

Case Study: The California Electricity Crisis of 2000-2001

Week 3: Game Theory, Bargaining, and Auctions (9/19)

Week 4: Dominant Firm with a Competitive Fringe (9/26)

Case Study: OPEC

Week 5: Cournot and Bertrand Oligopoly (10/3)

Week 6: Product Differentiation, Part 1 (10/10)

Preliminary Project Materials Due

Week 7: Mid-Term Exam (10/17)

Week 8: Product Differentiation, Part 2 (10/24)

Week 9: Collusion; Antitrust Policy (10/31)

Case Study: The Lysine Cartel

Week 10: Unusual Industries and Regulations (11/7)

Case Study: Hospital Competition

Case Study: Generic Pharmaceuticals and the Hatch-Waxman Act

Case Study: Sports and Antitrust

Week 11: Price Discrimination (11/14)

Case Study: Cable TV Bundling

11/21: Thanksgiving Holiday: No Class

Week 12: Vertical Integration and Restraints (11/28)

Case Study: Leegin v. PSKS

Case Study: Microsoft

Project Due

Week 13: Catch-up & Review; Topics of Interest (12/5)

Week 14: Final Exam (12/12)