EC5322 Industrial Organisation

The purpose of this course is to provide an in-depth analysis of the theory of modern industrial organisation. The course will start with the standard topics of price discrimination, imperfect competition and product differentiation. Subsequently it will cover more recent topics of interest, including such topics as add-on pricing, multi-sided platforms and exclusive dealing between manufacturers and retailers. The course will cover topics that should prove valuable to students considering doing research or economic analysis in the areas of industrial organisation and applied microeconomics theory.

Primary Text Book:


Reference Books:


Schedule

EC5322/EC5322R. Sem I. Thursday, 6.30pm to 9.30pm, Venue: AS1/0201
Office Hours: 2-4pm Thursdays.
Exam: 22 November 2011 (Tue), 5PM
Lecturer – Associate Professor Julian Wright

Assessment

There will be three written assignments based on problem type questions, worth 10% each. There will be a short in-class presentation of a paper from the recent literature worth 20%. There will be a final open book exam worth 50%.
Course Outline

Part I Traditional topics in IO theory

1. Price Discrimination (Tirole 3.1-3.4; Church & Ware 5.1-5.4)
   1.1 Perfect (first-degree) price discrimination
   1.2 Direct (third-degree) price discrimination
   1.3 Indirect (second-degree) price discrimination
   1.4 Tying and bundling to price discriminate

2. Competition with Homogenous Goods (Tirole 5; Church & Ware 8)
   2.1 The Bertrand paradox
   2.2 Solutions to the Bertrand paradox
   2.3 Decreasing returns to scale and capacity constraints
   2.4 Traditional Cournot analysis
   2.5 Concentration indices and industry profitability
   2.6 Free-entry and excessive entry

3. Product Differentiation (Tirole 7; Church & Ware 11.1-11.4, 11.6)
   3.1 Competition with exogenously differentiated goods
   3.2 Hotelling model of competition
   3.3 Salop model of competition
   3.4 Excess entry with product differentiation
   3.5 Logit model of competition
   3.6 Vertical differentiation

Part II Selected topics and more recent articles

4. Limited information (Tirole 7.3, Selected readings)
   4.1 Informative advertising
   4.2 Competition with search
   4.3 A model of sales
   4.4 Loss-leader pricing
   4.5 Add-on pricing

5. Networks and Platforms (Selected readings)
   5.1 Competition with network effects and expectation formation
   5.2 Two-sided markets and multi-sided platforms
   5.3 Platforms versus firms

6. Vertical restraints and exclusive dealing (Church and Ware 22, Selected readings)
   6.1 Intra-brand competition and vertical restraints
   6.2 Naked exclusion
   6.3 Exclusive dealing between manufacturers and retailers
Selected readings for topics 4-6

Loss-leader pricing:
- Y. In and J. Wright (2011) "Loss-leader pricing: Application of 'Signaling Private Choices': Loss-leader pricing and upgrades" [Link]

Add-on pricing:
- M. Schwartz and J. Wright "The relative transparency of prices: Base-good versus add-on pricing revisited"
- Y. In and J. Wright (2011) "A signaling theory of add-on pricing"

Networks and platforms:
- A. Hagiu and J. Wright (2011) "Multi-sided platforms".

Vertical restraints and exclusive dealing: