

School Of Economics and Finance

## **Econ 422 INDUSTRIAL ORGANIZATION**

Trimester One 2007

### **COURSE OUTLINE**

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#### **Contact Details**

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RH311

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Office hours:

Wednesday 1:00 – 3:00

#### **Class Times and Room Numbers**

Lecture time: Tuesday 12:40 – 14.30

Location: Railway West Wing (Pipitea), Room 126

#### **Course Objectives**

This course strives to explain the puzzling behaviour of firms. It examines topics like durability, product differentiation, price discrimination, static and dynamic imperfect competition, pre-commitment in strategic interaction, limit pricing, and product innovation

#### **Course Content**

**Lecture 1: Introduction.** Quantity games and price games; homogeneous and heterogeneous products; the role of commitment; strategic complements versus strategic substitutes.

**Lecture 2: Differentiation.** Horizontal differentiation; linear city models; preference-for-variety models; vertical differentiation; welfare implications.

**Lecture 3: Product Choice.** Location choice with regulated prices; models with unregulated prices: linear and quadratic transportation costs; circular city models.

**Lecture 4: Strategic Investment.** Taxonomy of business practices; deterrence of entry; accommodation of entry; application: the Dixit – Spence model of entry deterrence.

**Lecture 5: Collusion and Price Wars.** Facilitating practices; collusion and dynamic competition; price wars, collusion with uncertain demand

**Lecture 6: Network externalities and switching costs.** Network externalities and compatibility; switching costs and clienteles; Varian's model of sales

**Lecture 7: Competition with Imperfect Information.** Accommodation and tacit collusion; limit pricing and the entry model of Milgrom and Roberts: characterization of the separating and the pooling equilibria.

**Lecture 8: Innovation.** The value of innovation; patent races; innovation and entry; optimal patent policies.

**Lecture 9: Price discrimination and Bundling.** Two part tariffs; second degree price discrimination; commodity bundling: mixed bundling and the leverage theory.

**Lecture 10: Dynamic Consistency and Market Power.** Durable goods monopolies; perfect rational expectation equilibria; habit formation

**Lecture 11: Auctions.** First price sealed bid auctions; second price auctions; the revenue equivalence theorem; optimal auctions; the winner's curse.

**Lecture 12: Review.**

### **Expected Workload**

2 hours of lectures and 4 hours of preparation per week

### **Readings**

The main text is: Jean Tirole, *The Theory of Industrial Organization*, MIT Press, 1988

### **Assessment Requirements**

The final grade in this course will be calculated using the results of two assignments and a final examination.

Assignment 1: Due at start of lecture 7. Weight: 25%

Assignment 2: Due at start of lecture 12. Weight: 25%

Final exam: Three hours, date to be advised. Weight: 50%

### **Penalties**

Late assignments will not be marked.

### **Mandatory Course Requirements**

Students must submit at least one assignment and take the final exam.

### **Communication of Additional Information**

Additional information will be posted on Blackboard.

## **Faculty of Commerce and Administration Offices**

### Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to [www.vuw.ac.nz/policy](http://www.vuw.ac.nz/policy).

For information on the following topics, go to the Faculty's website [www.vuw.ac.nz/fca](http://www.vuw.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

## **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.