

School of Economics and Finance

ECON 328 INDUSTRY STRUCTURE AND BUSINESS STRATEGY

Trimester Two 2007

COURSE OUTLINE

Contact Details

Lecturers

Lewis Evans (course coordinator)
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Jack Robles
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Tutor

William Taylor
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Mezzanine Floor, Rutherford House, Box # 77

Class Times and Room Numbers

This is a second trimester course. Tutorials or review sessions will be held most weeks.

Lecture Times and Location

Monday, Tuesday & Friday: 11.30am-12.20pm. GBLT 3

Tutorial Times and Location

Friday: 12.40-1.30pm RHLT 3

Course Objectives

In this course economic theory is combined with empirical and experimental evidence in the study of the organisation of firms, industries and markets. It draws on game theory, transaction cost analysis, information theory and the application of economics to legal issues.

The goal is to teach you how to apply the tools of economic analysis to issues relating to the performance of markets and organizations. It reflects the view that theory must inform empirical investigation. It uses experimental economics, in which all students play roles as economic agents, to enhance comprehension and applicability of theory.

The more practice you get at applying economic analysis, the better you will do in this course. Read the materials before you come to lectures and prepare answers to questions that will be asked in class. Come to all the lectures and contribute to class discussion -- it will help your economic reasoning and hone your ability to present oral analytical arguments. The textbook contains many questions -- try to answer them yourself. It will ensure that you understand the material presented. Make sure that you complete all the coursework. It is designed to help build your economic thinking and ability to present written economic analysis.

Course Content

The timing in which material will be presented is only approximate.

Week 1 Introduction:

Lectures: the (Vanilla) Firm, and Perfect Competition

Tutorial: review of demand and opportunity cost

Refs: Cabral: Chs. 1-3, Carlton & Perloff: Ch 1-3, Martin: Chs 1 & 2

Week 2 Introduction to Monopoly and Regulation

Lectures: Monopoly, US public policy, and Game Theory

Tutorial: question session

Refs: Cabral: s. 4.1 and 4.2, Chs. 5 and 6, Carlton & Perloff: Chs.4 & 19

Martin: Chs 2-3

Week 3 Game Theory

Lectures: Game Theory (con't), the Dominant Firm

Tutorial: question and answer session

Refs: Cabral: Ch.7, Carlton & Perloff: Ch.6 & 4, Martin: Ch 4

Week 4 Oligopoly

Lectures: Cournot and Stackleberg Oligopoly

Tutorial: question and answer session

Refs: Cabral: ch.7, Carlton & Perloff: Ch.6, Martin: Ch 5, Perloff: Ch 14

Week 5 Oligopoly

Assessment item: Assignment 1 due

Lectures: Strategic Cost Sinking

Bertrand Oligopoly

Tutorial: question and answer session

Refs: Cabral: Ch 7, Carlton & Perloff: Ch 6, Martin: Ch 4 & 5,

Case: Kwoka & White: Case 6

Week 6 Product Variety

Lectures: Location Models

Tutorial: review of Assignment 1

Refs: Cabral: ch.12, Carlton & Perloff: Ch.16

Assessment Item: Essay topics due for notification

Week 7 *Competition law*

Lectures: Competition law, market power; unilateral and affiliated actions
Tutorial: question and answer sessions
Cases: The NZ supermarket and dairy merger cases
Refs: Cabral: chs. 4.3, 8, 9, Carlton & Perloff: Ch.11,

Week 8 *Network Economics:*

Lectures: Strategic Behaviour and two sided markets
Assessment Item: Mid Term Test 7.30pm
Tutorial: question and answer session
Cases: Fair Trading Act: *credit card disclosure of fees*
Refs: Julian Wright, 2004, "One Sided Logic in Two Sided Markets", *Review of Network Economics*, 3(1), 44-64, Cabral: chs.14 and 15, Carlton & Perloff: Chs.10 & 11

Week 9 *More on Monopoly and Regulation*

Lectures: Monopoly, regulation organisational form and enforcement: NZ cases
Tutorial: question and answer session
Assessment item: Assignment 2 due
Refs: Cabral: ch.5, Carlton & Perloff: Chs.4 & 15

Week 10 *Vertical Integration*

Lectures: forms of and reasons for vertical integration
Tutorial: banking market structure
Refs: Cabral: ch.11, Carlton & Perloff: Ch.12

Week 11 *Product Differentiation and Information*

Lectures: forms of and reasons for vertical integration
Tutorial: review of assignment
Assessment item: Essay due October 5.
Refs: Cabral: ch. 12, Carlton & Perloff: Chs.7 & 8, and 14

Week 12 *Market performance over time*

Lectures: Dynamic Efficiency: markets for durable goods
Tutorial: review session
Refs: Evans, Lewis, Jie Zhang and Neil Quigley, "Optimal price regulation in a growth model with monopolistic supplier of intermediate goods", *Canadian Journal of Economics*, 36 (2), 2003, 463-474. Carlton & Perloff: Chs.15 & 16

Readings

Required Textbook

Cabral, Luis M.B. *Introduction to Industrial Organisation* (MIT Press)

Readings

Other useful texts include:

Carlton, D. and Perloff, J., *Modern Industrial Organization*, 3rd ed. Addison-Wesley 2000.

Shy, O., *Industrial Organization: Theory and Applications*, MIT Press, 1995.

Martin, S., *Industrial Organization: Economic Analysis and Public Policy*, 2nd ed. Prentice Hall 1993.

Kwoka, J. and White, L., *The Antitrust Revolution: The Role of Economics*, 2nd ed. Harper Collins 1994

Perloff, J. *Microeconomics*, 4th ed. Addison-Wesley

Required readings and cases will be made available on Blackboard. Other readings will be indicated on Blackboard.

Expected Workload

This is a 24 point course which implies a workload = 240 hours. Hours expected per week = 19 (over 13 weeks), or 20 (over 12 weeks). This is a guide only, individual students should not feel constrained by it.

Assessment Requirements

The assessment for the course will consist of two assignments and a final examination.

Task	Weighting
2 Brief Assignments	10%
Test (Multiple Choice)	25%
Short Essay (2000 words)	25%
Examination	40%
Total	100%

Mandatory Course Requirements

It is mandatory that the essay and at least two assignments are completed.

Trimester Two examination could occur anytime between Thursday, 20th October to Saturday, 10th November inclusive.

The Essay

You will be required to submit electronically and in hard copy an essay of not more than 2,000 words of original work by October 2007. The topic is to be chosen by your self and approved by the course coordinator by August 17 2007. The topic is open subject to being directly related to the course content and objectives. Topics will be suggested.

Penalties

The penalty for late submission of coursework is 5% of the total mark available deduction per day. Assignments to be placed in box #77 of Rutherford House, Mezzanine Floor by 5pm of the day required.

Communication of Additional Information

Notices will be notified in class and provided on Blackboard. Other information, eg, lecture cancellations, will in addition be posted on the notice board located at the Reception on Level 3 of Rutherford House.

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.

Notice of Turnitin Use

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. At the discretion of the Head of School, handwritten work may be copy typed by the School and subject to checking by Turnitin. You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

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.

For information on the following topics, go to the Faculty's website 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 or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.

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