

School Of Economics and Finance

Econ 422 INDUSTRIAL ORGANIZATION

Trimester One 2008

COURSE OUTLINE

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: Friday 14:40 – 16:30

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

Materials and Equipment

Detailed lecture notes will be posted on blackboard. The students are allowed to use electronic calculators in tests.

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 on the ground floor (EA005). This counter is the first point of contact for :

- 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 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.victoria.ac.nz/home/about/policy/students.aspx

For information on the following topics, go to the Faculty's website www.victoria.ac.nz/fca under Important Information for Students:

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

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means *no cheating*. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other students or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website:

www.victoria.ac.nz/home/studying/plagiarism.html

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 6015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.