

School of Economics and Finance

ECON 422 INDUSTRIAL ORGANIZATION

Trimester One 2010

COURSE OUTLINE

Names and Contact Details

Contact Details

Vladimir Petkov	Office:	RH311
	Email:	vladimir.petkov@vuw.ac.nz
	Office hours:	Friday 14:00 – 16:00

Trimester Dates

Teaching Period: Monday 1st March – Friday 4th June 2010

Study Period: Monday 7th June – Thursday 10th June 2010

Examination Period: Friday 11th June – Wednesday 30th June 2010 (inclusive)

Withdrawal from Courses:

Information available via

Withdrawal dates: Late withdrawals with Associate Dean (Students) permission
(See Section 8: Withdrawals - from the Personal Courses of Study Statute)

<http://policy.vuw.ac.nz/Amphora!~policy.vuw.ac.nz~POLICY~000000001743.pdf>

Withdrawal dates: refunds:

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

Class Times and Room Numbers

Lecture time: Wednesday 11:30 – 13.20

Location: Rutherford House, Room G03

Course Content

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.

Course Learning Objectives

Course Objectives: by the end of this course students should be able to	
C1	Comprehend the ideas and methodology of industrial organization
C2	Analyze models of product differentiation and product choice
C3	Understand the theory of strategic investments
C4	Get insight into the topics of collusion and price wars
C5	Explain the consequences of network externalities and switching costs
C6	Analyze models of competition with imperfect information
C7	Discuss the effect of innovation on entry, competition and government policies
C8	Identify the reasons for price discrimination and bundling
C9	Understand the implications of time consistency for market power
C10	Solve basic auction models

Course Delivery

The course will be delivered in two-hour weekly lectures.

Expected Workload

2 hours of lectures and 4 hours of preparation per week during the trimester; 5 hours for each of the assignments; 20 hours of preparation during the study 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 end of week 6.	Weight: 25%
Assignment 2: Due at end of week 12.	Weight: 25%
Final exam: Three hours, date to be advised.	Weight: 50%

Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period.

The final examination for this course will be scheduled at some time during the period from
Examination Period: Friday 11^h June – Wednesday 30th June 2010

Penalties

Late assignments will not be marked.

Mandatory Course Requirements

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

CLASS REPRESENTATIVE

A class representative will be elected in the first class. The class representative's name and contact details will be available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

Communication of Additional Information

Additional information will be posted on Blackboard.

Use of Turnitin

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 compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. 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.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

<http://www.victoria.ac.nz/home/about/policy>

AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support

http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/