

School of Economics and Finance

ECON 328 INDUSTRY STRUCTURE AND BUSINESS STRATEGY

Trimester Two 2010

COURSE OUTLINE

Names and Contact Details

Lecturers

Lewis Evans (course coordinator)
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Jack Robles
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Tutor

Christopher Sissons
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Assignment Box: Mezzanine Floor, Rutherford House, **Box # 77**

Trimester Dates

Teaching Period: Monday 12th July – Friday 15th October 2010

Study Period: Monday 18th October – Thursday 21st October 2010

Examination Period: Friday 22nd October – Saturday 13th November 2010 (inclusive)

Withdrawal from Courses:

Your fees will be refunded if you withdraw from this course on or before **23 July 2010**

The last date for withdrawal from this course is the three-quarter point of the teaching period, i.e. **Friday 24 September**. After that date, permission to withdraw requires the permission of the Associate Dean (Students) as set out in section 8 of the Personal Courses of Study Statute

<http://policy.vuw.ac.nz/Amphora!~~policy.vuw.ac.nz~POLICY~00000001743.pdf>

To apply for permission, fill in the Late Withdrawal form available from either of our Student Customer Service Desks.

Class Times and Room Numbers

This is a second trimester course. Tutorials or review sessions will be held in all weeks except the first.

Lecture Times and Location

Monday, Tuesday & Friday: 8.30am - 9.20pm in GBLT2

Tutorial Times and Location

Friday: 12.40 -1.30pm and 1.40 – 2.30pm in RWW312

Course Learning 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. It reflects the view that theory must inform empirical investigation in evaluating markets and organisational structures.

By the end of this course, students should be able to:

- comprehend and articulate economic explanations of firms and public bodies, industry and market performance and organisational structures;
- comprehend and apply game theory and transactions cost analysis to industrial organisation issues;
- analyse the effects of dominant and oligopoly firms;
- analyse monopoly and regulation;
- analyse the role and implementation of competition law;
- describe the origins and analyse the implications of product variety;
- describe the origins and analyse implications of vertical restraints;
- describe the origins and analyse implications of network markets; and
- describe the origins and analyse implications of information goods and markets over time.

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 proposed timing of topic coverage 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 (cont'd), 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: (Possible example, electricity generation market)*

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 *Research and Development*

Lectures: Research and development

Tutorial: question and answer session

Assessment item: Assignment 2 due

Refs: Cabral: ch.16, Carlton & Perloff: Ch. 17

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.

Course Delivery

Course will be delivered by means of lectures and tutorials.

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 and individual students should not feel constrained by it.

Assessment Requirements

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

Task	Weighting
2 Brief Assignments	10%
Test	25%
Short Essay (2000 word maximum)	25%
Examination	40%
Total	100%

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.

Mandatory Course Requirements

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

Examinations

The final examination for this course will be scheduled at some time during the period from Friday 22 October to Saturday 13 November 2010 (inclusive).

Students should be able to attend an examination at the University at any time during the formal examination period.

The Essay

You will be required to submit a hard copy of your essay of not more than 2,000 words of original work by **October 8, 2010**. Accompanying the submission of the essay must be a Turnitin report (see below) and an electronic copy emailed to Alice (alice.fong@vuw.ac.nz). The topic is to be chosen by the student and approved by the course coordinator by August 20, 2010. The topic is open subject to being directly related to the course content and objectives. A topic will be suggested.

Students must screen their essays through Turnitin before submission. Essays will not be accepted unless a valid Turnitin report is attached to the back of the essay.

There is no detailed marking schedule for individual sections of the essay. This is because it is important for the essay as a whole to make sense. Details of the procedures to be used in relation to Turnitin will be posted on Blackboard.

Penalties

No assignments or essays submitted after the relevant deadline will be marked.

Assignments and the essay are to be placed in box #77, Mezzanine Floor of Rutherford House, by 5pm of the day required.

Class Representative

A class representative will be elected in the first class, and that person'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

Notices and other additional information will be notified in class and provided 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 online plagiarism prevention tool which compares submitted work with a very large database of existing material. The decision about whether any copying is plagiarism will be made in the first instance by the lecturer based on the information supplied by Turnitin. You are strongly advised to check with your lecturer 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, access to the full text of submissions will not be made available to any third 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/
