

School Of Economics and Finance

## **ECON 422 INDUSTRIAL ORGANISATION**

Trimester One 2011

### **COURSE OUTLINE**

---

#### **Names and Contact Details**

Vladimir Petkov	Office:	RH311
	Email:	<a href="mailto:vladimir.petkov@vuw.ac.nz">vladimir.petkov@vuw.ac.nz</a>
	Office hours:	Monday 11:00 – 13:00

#### **Trimester Dates**

Teaching Period: Monday 28 February – Friday 3rd June

Study Period: Monday 6 June – Thursday 9 June

Examination Period: Friday 10 June – Saturday 2 July (inclusive)

#### **Withdrawal from Course**

Your fees will be refunded if you withdraw from this course on or before 11 March 2011.

The standard last date for withdrawal from this course is 14 May. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an '*Application for Associate Dean's Permission to Withdraw Late*' including supporting documentation

The application form is available from either of the Faculty's Student Customer Service Desks.

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

Lecture time: Tuesday 11:30 – 13.20

Location: Railway West Wing, Room 128

#### **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.

#### **Lecture Programme**

**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

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

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 Friday 10 June – Saturday 2 July 2011.

## **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 selected in the first week, and that person's name and contact details made 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.

**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**

Find key dates, explanations of grades and other useful information at [www.victoria.ac.nz/home/study](http://www.victoria.ac.nz/home/study).

Find out about academic progress and restricted enrolment at [www.victoria.ac.nz/home/study/academic-progress](http://www.victoria.ac.nz/home/study/academic-progress).

The University's statutes and policies are available at [www.victoria.ac.nz/home/about/policy](http://www.victoria.ac.nz/home/about/policy), except qualification statutes, which are available via the Calendar webpage at [www.victoria.ac.nz/home/study/calendar](http://www.victoria.ac.nz/home/study/calendar) (See Section C).

Further information about the University's academic processes can be found on the website of the Assistant Vice-Chancellor (Academic) at [www.victoria.ac.nz/home/about\\_victoria/avcacademic/default.aspx](http://www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx)

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

[http://www.victoria.ac.nz/home/about\\_victoria/avcacademic/Publications.aspx](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/](http://www.victoria.ac.nz/st_services/mentoring/)