TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI
VICTORIA
UNIVERSITY OF WELLINGTON

School of Economics and Finance

ECON422 INDUSTRIAL ORGANISATION

Trimester 1, 2013

COURSE OUTLINE

Names and Contact Details

Vladimir Petkov	Office:	RH311
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	Office hours:	Wednesday 14:00 – 16:00
Bonnie Riley (Administrator)	Office:	RH321
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	Office hours:	M-F 9am-midday and 1-4pm

Trimester Dates

Teaching Period:	Monday 4 March – Friday 7 June
Study Period:	Monday 10 June – Thursday 13 June
Examination Period:	Friday 14 June – Wednesday 3 July (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 15 March 2013.

2. The standard last date for withdrawal from this course is Friday 17 May 2013. 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:	Wednesdays 09:30 – 11:20
Location:	Railway West Wing, Room 125

Course Delivery

The course will be delivered in weekly two-hour 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.

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 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.

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 will be allowed to use electronic calculators in the exam.

Assessment
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%

Penalties
Late assignments will not be marked.

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 following period:

14 June – 3 July

Mandatory Course Requirements
In addition to obtaining an overall course mark of 50 or better, students must submit at least one assignment and take the final exam.

Class Representative
A class representative will be elected in the first class, 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.

Link to general information
For general information about course-related matters, go to
http://www.victoria.ac.nz/vbs/studenthelp/general-course-information

Note to Students
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 academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

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