

Syllabus Econ 630 - 2018 Spring

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Classes: TR 1:00pm - 2:15pm (SNOW 321)

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1 Course

An examination of the structure, conduct and performance of American industry applying the concepts and techniques of economic analysis. Topics covered include the theories of monopoly, competition and oligopoly, concentration, barriers to entry, price-fixing and other restrictive practices, mergers, technological change, and public regulation. The course will also focus on American antitrust law.

2 Goal

At this day in age, markets are the main background and mechanism of interaction that our society uses in order to organize resource allocation. Our labor

force is allocated through the job market, the consumers get access to the goods they need through markets, and the financial system is nothing but a collection of monetary market structures; even a significant portion of company ownership is often negotiated through the stock market. Truth be told, organizing things in markets has become second nature to our life in society. By taking this course, you will get an upper hand and be able to examine the reasons why market institutions fail and considers the properties of alternative mechanisms, in terms of efficiency, fairness, incentives, and complexity. You will be introduced to methods to develop business strategy, challenge the status quo, and not taking an existent market structure as given, but rather thinking the best it can be. Understanding Industrial Organization and Antitrust Policy is much more than going through the rules of the game, it is about unveiling the propagation mechanisms for the decisions of all those involved in a particular market (i.e. all those interacting in this environment), allowing you to see things from a completely different perspective, which will set you forward in your professional life.

3 Pre-requisites

ECON 520 or ECON 524, ECON 590 (Suggested)

4 Agreement of Understanding

It is understood that the students continued enrollment in this course indicates that the student is aware of the content of, and accepts the terms of, this syllabus.

5 Text

This course requires the class notes available at the Bookstore. There is no official required textbook for this course. If you, personally, want a textbook to use as an outside source during this course I would recommend **Waldman & Jensen's Industrial Organization: Theory and Practice**; **Besanko. Dranove, Shanley & Schaefer's Economics of Strategy**; **Viscusi, Vernon & Harrington's**

Economics of Regulation and Antitrust or **Belleflame's** Industrial Organization.

5.1 Calculators: (Yes, they get their own category)

All students will require a calculator for this course, and you may not use your phone, a laptop, a notebook, a tablet, or any device capable of communicating. You will need those for your exams and for most of your participation points done in class. You may not borrow a calculator from your neighbor, even if he is done with his exam and/or participation point. At **NO** point in this class may a mobile phone or any other electronic device be used as a calculator. Any student using a mobile phone or other device automatically receives zero points for the project at hand: daily participation problem, exam or Final exam. The punchline: YES, YOU HAVE TO BUY A CALCULATOR!

6 Covered Topics

The following list contains a tentative schedule for the programmatic content of the semester. This will serve as a basis for you in case you would like to plan ahead and study topics before hand for greater familiarity. I reserve myself the right to make changes in those topics as well as their ordering if needed be.

1. Introduction to Industrial Organization
 - (a) Diff. between Industrial Organization approach and Classic Microeconomic Theory
 - (b) Firms Cost Structures and impact on Firms decision making Process
 - (c) Publics Interest v. Societys Interest (i.e. Welfare considerations under I.O.)
2. Boundaries of the Firm
 - (a) Vertical Boundaries of the Firm
 - i. Upstream and Downstream
 - ii. Make v. Buy Decisions
 - A. Transaction Costs
 - B. Asset Specificity

- C. Bounded Rationality
 - iii. Vertical Mergers
 - A. Double Marginalization
 - B. Vertical Foreclosure
 - (b) Horizontal Boundaries of the Firm
 - i. Horizontal Merger model from Competition to Monopoly with efficiency gains
 - ii. Sherman Act §1
 - iii. What does Antitrust Protect
 - iv. Harming Competition v. Harming Competitors
 - (c) Decision making dynamics considerations
 - i. X-Inefficiency
 - ii. Principal-Agent Problem
3. Market
- (a) Market Definition
 - (b) How Antitrust Law tries to determine boundaries of a market
 - i. Functional Equivalence
 - ii. Reasonable Interchangeability of Use
 - iii. NAICS
 - iv. SSNIP test
 - (c) Sherman Act §2
 - i. Monopoly v. Monopolization
 - ii. Requirements for Antitrust violation for monopolization, attempt to monopolize and conspiracy to monopolize
 - (d) Market Power and Market Concentration
 - i. Why is Antitrust Policy concerned with market power?
 - ii. Market Power v. Monopoly power
 - iii. Market concentration as a Proxy for Market Power

- iv. Four firm concentration ratio (CR4)
 - v. Herfindahl-Hirschman Index (HHI)
4. Barriers to Entry
- (a) Structural Barriers
 - i. Economies of Scale/Insufficient Demand
 - ii. Contestable Markets
 - iii. Contestable Natural monopoly model
 - iv. Absolute Cost Advantage
 - (b) Strategic Barriers
 - i. Limit Pricing
 - ii. Predatory Pricing
 - A. Areeda-Turner Criterion
5. Multiple Firm Markets
- (a) Dominant Firm with a Competitive Fringe
 - (b) Basic Game Theory
 - (c) Cournot Oligopoly
 - i. Cournot/Nash Equilibrium
 - ii. Using Cournot to go from Monopoly to Perfect Competition
 - iii. Lerner Index and Market Share relationship
 - iv. Market Lerner Index and Herfindahl-Hirschman Index
 - (d) Bertrand Oligopoly
 - (e) Stackelberg Oligopoly
6. Unilateral Conducts
- (a) Price Discrimination
 - i. First Degree
 - ii. Second Degree
 - A. Block Pricing

- B. Two-part Tariffs (Optional)
 - C. Block Pricing in unprofitable market (Optional)
 - iii. Third Degree
 - A. Cost plus Pricing
 - iv. Robinson-Patman Act
 - v. Bundling (Optional)
 - (b) Break even Pricing
7. Regulation (Optional - A great portion of those will be covered throughout the semester within context. If there is enough time I will turn it into a separate section and cover it in further detail)
- (a) Market Failures
 - (b) Dead Weight Loss
 - (c) Stigler/Peltzman Model
 - (d) History of Regulation & Antitrust in the US
 - i. Interstate Commerce Act (1887)
 - ii. Sherman Antitrust Act (1890)
 - iii. Clayton Act (1914)
 - iv. Federal Trade Commission Act (1914)
 - v. Robinson-Patman Act (1936)
 - vi. Celler-Kefauver Act (1950)

7 Slides

Slides will be posted on [Blackboard](#) for your reference. This material is intellectual property which I am kindly making it available to you for personal use, and thus not to be distributed without my permission.

Slides will be filed under the folder "In-Class Power Points" according to the following logic: "Slides YYYYMMDD.pdf" thus you may easily find the slide you are looking for given the 8 character string in which the four first characters

correspond to the year, the following two to the month and the last two to the day class took place.

I will not post slides before class has taken place.

8 Class Notes

The class notes you have purchased for this subject are to provide you with readings, exercises and support material for this subject.

This was a suggestion from your fellow students from previous semesters, and just as they have helped you by making contributions to improve the learning experience for semesters to come, so I encourage you to do the same. Please give me feedback on the notes, point out typos or things you would like to see in them.

Notice that those are for your personal use and not to be distributed, as they are intellectual property.

9 Course Grades

Your grade in this course will be determined by three things: Your exam scores, your in-class participation points as well as your project presentation. Each of these is addressed below.

9.1 Exams

There will be four (4) exams. Dates on the exams are below:

- Exam 1: Thursday, February 13th 2018, 1:00-2:15pm
- Exam 2: Thursday, March 8th 2018, 1:00-2:15pm
- Exam 3: Thursday, April 3rd 2018, 1:00-2:15pm (Due Date)
- Exam 4: Thursday, April 19th 2018, 1:00-2:15pm

The dates of exams will not change. The exams are comprehensive (because I.O. is comprehensive). In this course students are not allowed to drop one exam.

All exams (except for Exam 3) take place from 1:00-2:15pm. If a student arrives 5 (or 10 or 15 or) minutes late the student does not receive 5 (or 10 or 15 or) additional minutes at the end of the time period. There are no exceptions.

Exam 3 will be a take home exam. You must submit a hard copy of your exam on the specified date during class - the hard copy can either be typed or hand-written. If you cannot make it to that day's class you can either submit before the due date or entrust a fellow classmate to deliver it for you. If I don't receive it by the due date you automatically receive a zero. *You can work in groups and meet with your fellow classmates to discuss how to solve the exercises, however everyone must turn in their own work, written with their own language and thought process.* You may use whichever outside sources you would like.

9.1.1 Missing/ Making-Up Exams 1,2 & 4

If a student has to miss an exam I must have advance notice. This includes exams missed for illness, car trouble, etc. Advance notice can simply be an e-mail sent prior to 10:00am the day of the exam. If a student misses an exam and I have not received advance notice the student will not be allowed to make up the exam, for any reason. There are no exceptions.

If a student misses an exam and I have received advance notice the student has two options regarding making up the missed.

- The student can make up the missed exam within 4 days and schedule with me (<http://dutra.youcanbook.me>). All students who missed the exam will have to make up the exam on the same day.
- The student can receive a score of 80% of the average of his/her other three exam scores. For example, if Exam 3 is missed (with advance notice), and the student received a 88% on Exam 1, and an 80% on Exam 2, and an 82% on Exam 3, the student can opt to receive 80% of 83% (the average of the other three scores) which is 67% for Exam 4. *The average and therefore the grade for set exam will only be computed once all other exams have been taken.*

Those are the only two options available for making up a missed exam for which I have received advance notice.

9.1.2 F.A.Q. Exams

Will you tell us what will be on the exam? I will provide you with a Checklist before each exam, which will indicate the topics you should know for each exam, but not necessarily everything on set checklist will be tested on the exams.

For the take home Exam 3, if I give my exam to a classmate to deliver in class at the due date and he/she fails to do so, can I submit it again? No. Asking someone else to deliver your exam is still your responsibility, and I will not accept it at a later date.

If I make up the exam and I don't think I did it well, can I change my mind and use the other policy and take 80% of the average of the remaining exams? No. You can only choose that option if you have not yet seen the exam.

If there is one exam in which I have less than 80% of the average of the others, can I substitute this grade by 80% of the other ones? No. This policy is put in place to help you in case you cannot make it to exam day for some reason, not to pull up your grades.

Can I make up the exam later in the semester? No. The flexibility is offered in case you have to deal with unforeseen circumstances, not to give you extra time to study.

What do you mean exams are comprehensive? In I.O. all materials builds on itself. I will not ask the same type of questions for every single exam, but concepts learned early on will show up time and time again with different applications; and you are expected to be able to not only develop understanding but also critical thinking in Industrial Organization.

9.1.3 Keep your graded exams:

- Exams will be returned to students. Each student is responsible for keeping his/her exams.
- In any situation where a student may have a question regarding the calculation of his/her exam overall course grade it is this students responsibility to produce the hard copy of all exams for discussion purposes.

9.2 Project and Presentation

At some point in the semester, after we have covered enough material for you to put in practice, you will have the opportunity to present a full blown merger analysis to the class; as well as to relate it to Industrial Organization academic research. I will assign those cases and papers, and you will have the opportunity to discuss with your fellow group mates as well as to meet with me before set presentation to go over what you have prepared.

- Presentation days are:
 - Groups 1 and 2 on April 26th 2018
 - Groups 3 and 4 on May 1st 2018
 - Groups 5 and 6 on May 3rd 2018
- I will have the list of topics in the second month of class, so that you may sign-up your name and form groups. These topics will cover some different merger cases that you can apply the principles learned in class, and get to see in practice how Antitrust Law in the United States works regarding merger analysis; so that you can relate to the models that we will work throughout the semester. Each case is accompanied by an academic paper in Industrial Organization that you ought to explain and relate to both the subject matter and to the merger case.
- Even though the project and presentations are only due at the end of the semester, I strongly encourage you to read the case as early as possible, familiarize yourselves with it' and begin identifying in the classes the topics developed in your respective merger cases.
- Once all the spots have been filled up, the only possibility to change the topic/date you are supposed to present is by finding a student who is willing to swap at least a week prior to your presentation and let me know in advance.
- The same principle goes for groups, a group may only swap dates if it finds another group which is willing to make the swap. If a group cannot present at the agreed dates and needs to postpone the presentation for whatever reason, the project will only be worth 75% of the total possible points.
- Presentations will usually be 25-30 minutes long. You and your group may choose to prepare slides to aide on your presentation; although this is not a necessary deliverable, (it might good practice though). However,

you and your group must prepare a hand-out with a summary of the case study and analysis developed for your fellow students.

- Your grade from the presentation is based 50% on the hand-out, 50% on your presentation. All members of the group will receive the same grade. Rubrics for the evaluation criteria for each of those will be made available in a timely manner.

9.3 Participation Points

In most classes (but not every class) students will have the opportunity to earn participation points. These are earned by solving problems or answering questions similar to those that will be on your exams.

- NOTE 1: These are not extra points; these points account for a significant portion of your course grade (see below).
- NOTE 2: Participation points can only be earned by attending class. There is no making up of participation points for any reason, including illness or University-sponsored absences. There are no exceptions.
- NOTE 3: Your total participation score will be evaluated using 25 out of 26 participation opportunities.

9.3.1 F.A.Q. Regarding Participation Points

What do you mean in most but not all classes we will have the opportunity to earn participation points? There are 27 class periods where exams are not taking place. In all of these there will be participation problems and associated participation points. Therefore, you don't earn specific participation points on exam days because your participation points are in the exam.

What does it mean the score will be evaluated using 25 out of 27 participation opportunities? It means you can miss two class periods for any reason before you start losing points due to missed participation. You get (in essence) a free pass.

What if I miss class due to illness? That is why you have two free passes; classes missed due to illness count as the allowed absence.

What if I miss class due to a University-sponsored event? Same thing; that is why you have two free passes; classes missed due to University-sponsored

events count as the absence.

What if I have family obligations like a funeral or wedding? Same thing; that is why you have two free passes; classes missed due to family obligations count as the absence.

What if I have already missed two classes due to a University-sponsored event and then I miss class because I am ill? You lose points.

What if I have already missed two classes because I was ill and I must miss class for another reason like a funeral? You lose points.

What if I have already missed two classes due to illness, and I have a car wreck on my way to class and miss the class? You lose points.

Is there any absence at all, for any reason, where participation points may be made up? No.

How many points is each participation opportunity worth? 4 points each; 25 opportunities; 100 points for participation in total (out of 600 points total for the course.)

10 Total Point Possibilities

Exams: Exam 1-4 are worth 100 points each for a total of 400 points.

Participation Opportunities: Each participation opportunity is worth 4 points for a total of 100 points.

Project: Accounts for 100 points.

Course Total: 400 Points for Exams + 100 points for Participation + 100 Presentation = 600 points possible.

Course Grading is standard collegiate based on a total of possible points.

- **A** 540 to 600 Points
- **B** 480 to 539.99 Points
- **C** 420 to 479.99 Points
- **D** 360 to 419.99 Points
- **F** < 360 Points

This class is not graded on a +/- system.

Extra Credit: Some exams will have extra credit questions on them. Apart from those, there is no extra credit available in this course.

11 Religious Holidays

Any student in this course who plans to observe a religious holiday that conflicts in any way with the course schedule or requirements should contact me as soon as possible to indicate the need for accommodations.

12 Students with Disabilities

A student who has a disability that may require accommodations should contact me during the first week of classes so that we may address the need for accommodations.

13 Concealed Carry

KU and KBOR policy define the safe possession of handguns and responsibilities of the carrier. Simply put, handguns must be secured in a holster that covers the trigger area and secures any external hammer in an un-cocked position. The safety must be on and the handgun must be carried without a chambered round of ammunition. The handgun must also not be seen by others and be under the carrier's custody and control on the body or in a backpack or purse or in a safe storage device or secure location such as a locked vehicle.

Except when necessary for transferring to safe storage or self-defense, a handgun must not be openly displayed. This course takes place in spaces that will require students to leave belongings such as backpacks and purses away and unattended for the duration of class time. Students who choose to carry a concealed handgun in a purse, backpack, or bag must review and plan each day accordingly, and are responsible for making alternate arrangements as necessary. The university does not provide appropriate secured storage for concealed handguns.

Violations of policy may result in individuals being asked to leave campus with the weapon and being cited for trespass if they refuse. University employees or students who violate policy may face discipline through applicable university codes of conduct.

For more information on University Policy regarding concealed carry, [click here](#). Also review [state and federal laws](#) as well as [KU weapons policy](#).

14 Expectations

I will be available to you during my office hours, as listed above, on 229 Snow. If you plan to attend my office hours, I would kindly ask that you fill up an appointment at <http://dutra.youcanbook.me> so that I know to expect you. Often enough multiple students will show up at the same time and I am not able to provide the same level of attention to which I would like. This also let's me know in a particular week if I need to allocate extra time for this purpose. Please know that you can schedule meetings with groups of students too and not just one at a time. My office hours are a right you all have, so don't hesitate to look for me during those stated hours.

You can expect me to reply e-mails from Monday to Friday, from 8am to 6pm. Try to plan ahead your questions so you won't need me to answer outside of this time-frame.

I am not a native English speaker, and even though I work hard on my language skills, a communication gap may occur. Let's use transparency and common sense to make sure this doesn't happen. Feel free to come to me and talk about it, or ask me to repeat something, or explain it in a different way. Communication is a two way street.