# Industrial organization

## Prof. Piero Tedeschi

**COURSE AIMS AND INTENDED LEARNING OUTCOMES**

The objective of the course is to provide students with a solid logical foundation that enables them to comprehend how imperfectly competitive markets work and the most fundamental firm choices in terms of market strategies.

- At the end of the course, students will have sufficient knowledge to read any article in a specialized Journal of Industrial Organization.

- They will be able to apply the most relevant notions of industrial organization to empirical cases.

- They will be able to develop autonomously simple variations of scientific models.

- They will be capable of describing articles at the frontier of current research and communicate the findings to a general audience.

- They will be able to attend more advanced studies on industrial organization.

**COURSE CONTENT**

The course examines the economic foundation of firms competitive strategies in a straightforward manner. It will develop some of the issues dealt with in a basic micro-course. After introducing monopoly and perfect competition theory, it will deal with the more general cases of oligopolies concerning price and non-price competition, such as product differentiation, advertising, R&D, and network industries. Moreover, barriers to entry, market power, horizontal and vertical agreements will be essential components of the classes.

Analytical Program

**Overview of Basic Microeconomics: Market Power**

Market Power and Concentration

Firms Pricing. Price Discrimination

– The conditions for the three degrees of discrimination;

– Linear Tariffs;

– Two-Part Tariffs;

– Other Forms of Discrimination.

Monopolist product choice

– Product Differentiation in the Space (Hotelling);

– Horizontal Differentiation and Varieties;

– Vertical Differentiation and Quality Choice.

**Oligopoly – Price Strategies**

Methods for the Economic Analysis

– Elements of Game Theory;

– Nash Equilibrium;

– Dynamic Games and Backwards Induction.

Basic Models

– Bertrand and Cournot Models;

– Capacity Constraints (slides);

– Comparative Statics;

– Strategic Substitutes and Complements;

– The Order of Moves: The Stackelberg Model.

**Oligopoly – “Anticompetitive” Strategies**

Entry, Entry Barrier and Predatory behaviour)

– Entry Costs;

– Entry Barriers, Capacity and Credibility (limit pricing);

– The Role of Asymmetric Information.

Dynamic Models and Collusion

– Repeated Games and Collusion;

– Facilitating Factors;

– The Role of Asymmetric Information;

– Facilitating Behaviours.

**Horizontal and Vertical Relations**

The Boundaries of the Firms and Mergers

– Mergers;

– Horizontal Mergers.

Vertical Structure

– Double Marginalization and Vertical Integration;

– Two-Part Tariffs;

– Vertical and Horizontal Externalities with Vertical Separation;

– Contractual Remedies to the Externalities;

– Vertical relation with asymmetric information.

**Oligopoly – Non-Price Strategies**

Product Differentiation

– Differentiated Oligopoly;

– The Linear City Model and the Transportation Costs;

– Product Proliferation and Entry Barriers;

– Vertical Differentiation and Competition;

– Switching Costs.

Advertising

– Informative and Persuasive Advertising;

– Market Structure and Advertising Expenditure (Dorfman – Steiner);

– Information and Advertising;

– Advertising and Competition.

Research and Development (chap. 18)

– R&D Incentive to Invest and Market Structure;

– Patents;

– Technological and strategic uncertainty (slides);

– Long Run Dynamic Competition (slides).

**Net and Regulated Industries**

Competition in net industries (chap. 19)

– Network Externalities and Monopolization;

– Adopting Innovations;

– Compatibility among Networks.

Monopoly and Regulated Industries (slides)

– Monopolistic (network) Industries Regulation;

– The Notion of essential facility;

– Access to Networks.

Two-sided Markets.

**READING LIST**

P. Belflamme-M. Peitz, Industrial Organization: Markets and Strategies, Cambridge University Press, 2015.

During the classes, professor Piero Tedeschi may use slides available on Blackboard, which will be a significant part of the references.

Classes will alternate traditional lessons taught by the teacher and presentation organized by small groups of students. Presentations by students will typically focus on empirical papers, in the field of industrial organization. The final evaluation will consider the quality of the presentations.

During classes students will also receive problem sets, which will be evaluated.

**ASSESSMENT METHOD AND CRITERIA**

The typical assessment method will be a written exam, with theory open questions and exercises. For students who actively participate in classes, the solution of the take-home assignments (in written form and in class) and the presentation of a paper will replace the exam. In the Blackboard page of the course one can find further information.