

*Economics 607*

*Seminar*  
*in*  
*Industrial Organization*

*Fall 2002*

**Instructor:** Wesley W. Wilson  
**Office:** PLC 470  
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**Hours:** Tues 9:00-10:00. By appointment. Note: I am usually around and you may stop in as you wish.

This is a graduate course in industrial organization. Students are assumed to have a good grasp of graduate level theory and econometrics. The topics of the course correspond primarily to empirical industrial organization. The topics include traditional empirical industrial organization, models of pricing and structure, determinants of market structure, market evolution, entry, exit and market participation. Time permitting I will also add a variety of other topics including mergers, network effects, and asymmetric information.

**Objectives:**

The objectives of this seminar are for the student to develop:

1. an appreciation and understanding of the field of industrial economics from both a theoretical and an empirical perspective;
2. a facility to summarize and critically evaluate research;
3. skills in presenting research in oral and written form; and
4. an ability conceptualize and to complete research in industrial economics.

These objectives will be fulfilled through lectures, written and problem homeworks, presentations, and a term paper assignment (Due December 4th in class).

**Reading Materials:**

The primary text used in the class is by Stephen Martin, *Advanced Industrial Organization* (2<sup>nd</sup> ed.), Blackwell Publishers: Oxford, 2002. There are a variety of other readings that are available on reserve at the library, in hard copy form on the shelves in the library, through me (binders), or on the JSTOG.ORG website. I have listed below a variety of texts that you might find useful.

Baumol, William. J., John C. Panzer, and Robert D. Willig, *Contestable Markets and the Theory of Industry Structure* (New York: Harcourt Brace Jovanovich, Inc., 1982).

Bresnahan, Timothy F., and Richard Schmalensee, *The Empirical Renaissance in*

*Industrial Economics* (Oxford: Basil Blackwell Ltd., 1987).

Scherer, F. M., and David Ross, *Industrial Market Structure and Economic Performance*, 3<sup>rd</sup> ed. (Boston: Houghton Mifflin Company, 1990).

Schmalensee, Richard, and Robert D. Willig, *The Handbook of Industrial Organization*, Volumes 1 and 2 (Amsterdam: North-Holland, 1989).

Sutton, John, *Sunk Costs and Market Structure: Price Competition, Advertising, and the Evolution of Concentration* (Cambridge: The MIT Press, 1991).

Tirole, Jean, *The Theory of Industrial Organization* (Cambridge: The MIT Press, 1988).

Waterson, Michael, *Economic Theory of the Industry* (Cambridge: Cambridge University Press, 1984).

### **Grading:**

Grades will be based on a series of written assignments and problems (30%), a presentation (10%), a paper (25%), and a final (35%).

**Written Assignments/Homeworks:** There will be a variety of assignments announced in class. These may include standard problem-solving, short papers, empirical examinations of IO models, referee reports, etc.

**Paper:** Phd student papers should be approximately 10-15 pages long. It should describe an issue in an industrial economics area, review the literature in the area, and have some type of analysis of the problem. It is intended to be a beginning effort at a graduate level paper in economics. The rules: there must be a statement of the problem and its importance, there must be a minimum of five papers summarized (i.e., previous research), and some form of analysis. Master Student papers should be approximately 10 pages long. It should describe an issue in an industrial economics area and provide a critical literature review of that area. (NOTE: By agreement early in the term, the student may opt into the Ph.D. requirement).

Note: There are innumerable paper topics available. To

**Presentations:** At the end of the term, we will use three class periods for presentations. In your presentations, you will present your paper to the class. The presentations will be consolidated around themes of students and run as a conference (i.e., presentations will be about 15-20 minutes long with a brief discussion period).

**Final:** The final will be comprehensive and cover the materials presented in class and in the readings.

## *Course Schedule*

This is a tentative schedule and will change through the term.

- Week 1: Course Introduction and the traditions of Industrial Organization
- Week 2: Classical Models of Oligopoly and Industrial Organization
- Week 3: The New Empirical Industrial Organization
- Week 4: The Determinants of Market Structure
- Week 5: Market Evolution
- Week 6: Entry
- Week 7: Exit
- Week 8: Market Participation
- Week 9: Asymmetric Information, Adverse Selection, Signaling and Reputations
- Week 10: Student Presentations

## Selected Readings

These reading are tentative and will be changed through the term. Most of the readings are available in the binders. The topic areas are separated by colored paper, and all would agree that if you remove them from the binders that you should put them back in the same topic area. I also note that a more extensive reading list in some of the areas as well as other areas (somewhat outdated but under construction) is available on my website titled IO-607-Readings).

Weeks 1 and 2: Course Introduction and the traditions of Industrial Organization.

Martin (M) chapter 1-6.  
Scherer and Ross (SR) chapter 1, 11, 18  
Tirole chapter 1.

Week 3: Studies of Concentration and Performance and The New Empirical Industrial Organization

Martin chapter 7  
Schmalensee (1989), Handbook of Industrial Organizaiton  
Bresnahan (1989), Handbook of Industrial Organization.  
Slade, Empirical Games: The Oligopoly Case, Can. J. of Economics,  
Wolfram, "Measuring Duopoly Power in the British Electricity Spot Market" AER, September, 1999.  
Azzam, "Measuring Market Power and Cost-Efficiency Effects of Industrial Concentration" JIE December 1997.  
Krouse, "Measuring Market Power, Revisited, RIO, December 1998  
Rubinovitz, "Market Power and Price Increases for Basic Cable Srevice Since Deregulation", Rand Spring 1993.  
Berry Levinshon, and Pakes, "Automobile Prices in Market Equilibrium" Econometrica, July 1995.

Week 4: Single Product Market Structure; Examine explanations for market structure, measures of market structure, trends in market structure, and empirical studies of market structure.

Martin Chapter 11.  
Scherer and Ross Chapter 3 and 4 (pp. 97-140).  
Ellison, Glenn, and Edward L. Glaeser, "Geographic Concentration in US Manufacturing Industries: A Dartboard Approach. JPE October 1997.  
Shepherd, "Causes of Increased Competition in the U.S. Economy, 1939-1980, RESTAT November 1982.

Amel, Dean F., and J. Nellie Liang, "Dynamics of Market Concentration in U.S. Banking," *International Journal of Industrial Organization*, Vol. 8 (September, 1990) No. 3, pp. 375-384.

Kessides, I. N., "Market Concentration, Contestability, and Sunk Costs," *Review of Economics and Statistics*, Vol. 72 (November, 1990)

No. 4, pp. 614-22.

Week 5: Industry Evolution and the Size and Age Distribution of Firms in an Industry; Examine theoretical reasons for the size and age distribution of firms in a market. Size and Age Distribution of Firms - Empirical Papers; Examine empirical models of the size and age distribution of firms.

Scherer and Ross, Chapter 4 pp. 141-150.

Jovanovich, Boyan, "Selection and Evolution of Industry," *Econometrica*, Vol. 50 (May, 1982), pp. 649-670.

Audretsch, David B., "New Firm Survival and the Technological Regime," *Review of Economics and Statistics*, Vol. 73 (August, 1991) No. 3, pp. 441-450.

Audretsch, David B., "Firm Selection and Industry Evolution: The Post-Entry Performance of New Firms," Mimeo.

Week 6: Entry Models

Martin, Chapter 11.

Scherer and Ross, Chapter 10.

Tirole, Chapter 8.

Farrell, Joseph, "Cheap Talk, Coordination, and Entry," *Rand Journal of Economics*, Vol. 18 (Spring, 1987) No. 1, pp. 34-39.

Kessides, Ioannis N., "Towards a Testable Model of Entry: A Study of the US Manufacturing Industries," *Economica*, Vol 57 (May, 1990) No. 226, pp. 219-238.

Bresnahan, Timothy F. and Peter C. Reiss, "Entry in Monopoly Markets," *Review of Economic Studies*, Vol. 57 (October, 1990) No. 4, pp. 531-553.

Orr, Dale, "The Determinants of Entry: A Study of the Canadian Manufacturing Industry," *Review of Economics and Statistics*, Vol. 56 (February, 1974) No. 1 pp. 58-66.

Bresnahan, Timothy F. and Peter C. Reiss, "Entry and Competition in Concentrated Markets," *Journal of Political Economy*, Vol. 99 (October, 1991) No. 5. pp., 977-1009.

Week 7: Exit; Develop strategic models of exit.

Martin. Chapter 11.

Ghemawat, Pankaj, and Barry Nalebuff, "Exit" *Rand Journal of Economics*, Vol. 16 (Summer, 1985), No. 2, pp. 184-194.

Ghemawat, Pankaj, and Barry Nalebuff, "The Devolution of Declining Industries," *Quarterly Journal of Economics*, Vol. 105 (February, 1990) No. 1, pp. 167-86.

Hayes, John B., "Do Firms Play Exit Games?" University of Wisconsin, 1993, mimeo.

Lieberman, Marvin B., "Exit from Declining Industries: Shakeout or Stakeout?" *Rand Journal of Economics*, Vol. 21 (Winter, 1990) No. 4, pp. 538-54.

Week 8: Market Participation

Mark Roberts and Jame Tyebout, "The Decision to Export in Colombia: An Empirical Model of Entry with Sunk Costs," *American Economic Review*, Vol 87:4 (September 1997)

Bresnahan, Timothy and Peter C. Reiss, "Measuring the Importance of Sunk Costs," mimeo

Wilson. Mimeo

Week 9: Asymmetric Information, Adverse Selection, Signaling and Reputations

Akerlof, George, "The Market for Lemons: Quality Uncertainty and the Market Mechanism," *The Quarterly Journal of Economics*, Vol. 84, pp. 488-500.

Spence, Michael, "Job Market Signalling," *The Quarterly Journal of Economics*, Vol. 98, pp. 659-79.

Genesove, "Adverse Selection in the Wholesale Used Car Market," *Journal of Political Economy*, Vol. 101, no. 4 (August 1993): 644-665.

Roseman and Wilson. "Quality Differentials and Prices: Are Cherries Lemons," *Journal of Industrial Economics*, December, 1991.

Week 10: To be announced. Student presentations.