

ECN 607: SEMINAR IN INDUSTRIAL ORGANIZATION II

Professor Bruce Blonigen

Office: 511 PLC
Ph.#: 346-4680

Office Hrs: Tu,W 2-3
Email: bruceb@uoregon.edu

SYLLABUS

This course is one of two graduate seminars in industrial organization. We will focus on five main areas: 1) pricing and pricing strategies of firms, including price discrimination, limit pricing, and predatory pricing, 2) product differentiation, 3) incomplete contracts and theory of the firm, 4) innovation, patents, and research and development, and 5) merger analysis and antitrust regulation. We will cover both the theoretical and empirical sides of these issues, and most likely more about half the course will be devoted to the first two topics. In addition, I will point out the international applications of each topic, rather than treat international industrial organization as a separate focus area.

The goal is to give you a solid understanding of literature in each area and a sense for which issues economists have deemed important and relevant. Along the way, you may pick up new tools and techniques for your tool box. We will have weekly or biweekly assignments and quizzes (**20 % of your grade for Ph.D. students, 30% Master's**) and a midterm in the seventh week of the quarter (**30 % Ph.D. and 35% Master's**).

The ultimate goal in a field class is to get you working on and writing original research. To achieve this, a paper will be due at the end of the term (**30 % Ph.D. and 35% Master's**) by 5 pm on Wednesday, June 14. There will be two options for the paper: 1) a 10-12 page literature review (with at least 15 cites), or 2) a paper that presents a new problem or issue and derives theoretical or empirical results (at least 10 pages). I actually recommend the first option, regardless of where you are at with your dissertation or thesis research. The topic needs to be decided in consultation with me by the second or third week of class. Finally, the Ph.D. students only will present an article to the class (**20% Ph.D.**) from their literature review in one of the final two weeks of class.

Course readings for each topic will be announced a week in advance. We may or may not cover each of the articles listed below in a topic area. In addition, there are the following required and recommended text books.

Required Text:

Jean Tirole. *The Theory of Industrial Organization*. Cambridge, MA: The MIT Press, 1990.
Stephen Martin. *Advanced Industrial Economics*. Cambridge, MA: Blackwell Publishers, 1993.

Other Recommended Texts:

Oz Shy. *Industrial Organization*. Cambridge, MA: The MIT Press, 1995.
F. M. Scherer and David Ross. *Industrial Market Structure and Economic Performance*. Boston, MA: Houghton Mifflin, 1990
Dennis Carlton and Jeffrey Perloff. *Modern Industrial Economics*. NY: HarperCollins College Publishers, 1994.

COURSE OUTLINE AND READINGS
(* - indicates required reading)
(Subject to change with notification during the quarter)

I) Pricing Strategies - Price Discrimination

*Tirole, chapter 3, pp. 133-168.

*Oi, Walter. (1971). "A Disneyland Dilemma: Two-Part Tariffs for a Mickey Mouse Monopoly," *Quarterly Journal of Economics*. Feb: 77-96.

*Brander, James and Paul Krugman. (1983). "A 'Reciprocal Dumping' Model of International Trade," *Journal of International Economics*. 15: 313-321.

Klemperer, Paul. (1987). "Markets with Consumer Switching Costs," *Quarterly Journal of Economics*, 102(2): 375-94

Borenstein, Severin and Nancy L. Rose. (1994). "Competition and Price Dispersion in the U.S. Airline Industry," *Journal of Political Economy*. 102(4): 653-83.

Goldberg, Penelopi K, and Michael M. Knetter. (1997) "Goods Prices and Exchange Rates: What Have We Learned?" *Journal of Economic Literature*. 35(3): 1243-72.

Ellison, Glenn. (2005). "A Model of Add-on Pricing," *Quarterly Journal of Economics*, 120(2): 585-638.

Blonigen, Bruce A., and Stephen E. Haynes. (2002) "Antidumping Investigations and the Pass-Through of Exchange Rates and Antidumping Duties," *American Economic Review*, 92(4): 1044-1061.

II) Pricing Strategies - Predatory Pricing and Limit Pricing

*Tirole, chapter 9, pp. 361-388.

*Martin, chapter 8, pp. 226-273.

McGee, John S. (1958). "Predatory Price Cutting: The Standard Oil (N.J.) Case," *Journal of Law and Economics*, 1: 137-69.

*Burns, Malcolm R. (1986). "Predatory Pricing and the Acquisition Cost of Competitors," *Journal of Political Economy*, 94(2): 266-296.

*Isaac, R. Mark and Vernon L. Smith. (1985). "In Search of Predatory Pricing," *Journal of Political Economy*, 93(2): 320-345.

II) Pricing Strategies - Predatory Pricing and Limit Pricing continued

Jung, Yun Joo, John H. Kagel, and Dan Levin. (1994) "On the Existence of Predatory Pricing – An Experimental-Study of Reputation and Entry Deterrence in the Chain-Store Game," *RAND Journal of Economics*, 25(1): 72-93.

Lerner, Josh. (1995) "Pricing and Financial Resources: An Analysis of the Disk Drive Industry, 1980-88," *Review of Economics and Statistics*, 77(4): 585-598.

III-A) Product Differentiation - Theory

*Tirole, chapter, 7, pp. 277-304.

*Martin, Chapters 3-4, pp. 41-116, Chapter 11, Section 4, pp. 356-360.

Shy, chapter 7, pp. 133-168.

Hotelling H. (1929). "Stability in Competition," *Economic Journal*. 39: 41-57.

Gabszewicz, J. and J.F. Thisse (1980). "Entry (and Exit) in a Differentiated Industry," *Journal of Economic Theory*. 22: 327-38.

*Bonnano, G. (1987). "Location Choice, Product Differentiation, and Entry Deterrence," *Review of Economic Studies*. 54: 37-45.

*Schmalensee, R. (1978). "Entry Deterrence in the Ready-to-Eat Breakfast Cereal Industry," *Bell Journal of Economics*. 9: 305-27.

*Klemperer, Paul. (1992). "Equilibrium Product Lines: Competing Head-to-Head May Be Less Competitive," *American Economic Review*. 82: 740-755.

III-B) Product Differentiation - Empirical

*Berry, Steven T. (1994). "Estimating Discrete-Choice Models of Product Differentiation," *RAND Journal of Economics*. 25(2): 242-262.

*Irwin, Douglas A. and Nina Pavcnik. (2004). "Airbus versus Boeing Revisited: International Competition in the Aircraft Market," *Journal of International Economics*. 64(2): 223-45.

*Berry, Steven T. and Joel Waldfogel. (2001). "Do Mergers Increase Product Variety? Evidence from Radio Broadcasting," *Quarterly Journal of Economics*. 66(3): 1009-1025

Stavins, Joanna. (1995). "Model Entry and Exit in a Differentiated-Product Industry: The Personal Computer Market," *Review of Economics and Statistics*. 77(4): 571-584.

Verboven, Frank. (1996). "International Price Discrimination in the European Car Market," *RAND Journal of Economics*. 27(2): 240-268.

IV-A) Incomplete Contracts and Theory of the Firm

* Martin, Chapter 12, pp. 279-299.

*Williamson, Oliver. (1979) "Transaction-Cost Economics: The Governance of Contractual Relations," *Journal of Law and Economics*, 22(October): 233-61.

*Grossman, Sanford J. and Oliver D. Hart. (1986) "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration," *Journal of Political Economy*. 94(August): 691-719.

Antras, Pol and Elhanan Helpman. (2004) "Global Sourcing," *Journal of Political Economy*. 112(June): 552-80.

IV-B) Empirical Evidence on Incomplete Contracts and Theory of the Firm

Baker, George P. and Thomas N. Hubbard. (2004) "Contractibility and Asset Ownership: On-Board Computers and Governance in U.S. Trucking," *Quarterly Journal of Economics*, 119(May): 1443-79.

Joskow, Paul L. (1987) "Contract Duration and Relationship-Specific Investments – Empirical Evidence from Coal Markets," *American Economic Review*, 77(March): 168-185.

* Feenstra, Robert C. and Gordon H. Hanson. (2005) "Ownership and Control in Outsourcing to China: Estimating the Property-Rights Theory of the Firm," *Quarterly Journal of Economics*, 120(May): 729-61.

V-A) R&D, Innovation, and Patents - Theory

*Tirole, chapter 10, pp. 389-422.

*Martin, chapter 14, pp. 445-475.

Shy, chapter 9, pp. 219-252.

Reinganum, Jennifer F. (1983). "Uncertain Innovation and the Persistence of Monopoly," *American Economic Review*. 73(4): 741-748.

V-B) R&D, Innovation, and Patents – Empirical

*Oster, Sharon. (1980). "The Diffusion of Innovation Among Steel Firms: The Basic Oxygen Furnace," *Bell Journal of Economics*. 11: 45-56.

*Geroski, Paul, Steve Machin, and John Van Reenen. (1993) "The Profitability of Innovating Firms," *RAND Journal of Economics*. 24(2): 248-270.

Bresnahan, Timothy. (1986). "Measuring the Spillovers from Technical Advance: Mainframe Computers in Financial Services," *American Economic Review*. 76: 742-755.

V-B) R&D, Innovation, and Patents – Empirical continued

Hall, Bronwyn H. (1990). "The Impact of Corporate Restructuring on Industrial Research and Development," *Brookings Papers on Economic Activity: Microeconomics*.

*Trajtenberg, Manuel. (1990). "A Penny for your Quotes: Patent Citations and the Value of Innovations," *RAND Journal of Economics*. 21(1): 172-187.

Aghion, Philippe, Nick Bloom, Richard Blundell, Rachel Griffith and Peter Howitt. (2005) "Competition and Innovation: An Inverted-U Relationship," *Quarterly Journal of Economics*, 120(May): 701-728.

Javorcik, Beata S. (2004) "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages," *American Economic Review*, 94(3): 605-27.

McCalman, Phillip. (2004) "Foreign Direct Investment and Intellectual Property Rights: Evidence from Hollywood's Global Distribution of Movies and Videos," *Journal of International Economics*, 62(1): 107-23.

VI) Merger Analysis and Antitrust Regulation

*Martin, chapter 12, sections 3-9, pp. 399-414.
Scherer and Ross
Shy, chapter 8, pp. 171-182 & 209-213.

*Department of Justice and Federal Trade Commission. (1992). *Merger Guidelines - 1992*

*Farrell, Joseph, and Carl Shapiro. (1990). "Horizontal Mergers: An Equilibrium Analysis," *American Economic Review*. March: 107-126.

*Baker, Jonathan B., and Timothy F. Bresnahan. (1985). "The Gains from Merger or Collusion in Product-Differentiated Industries," *Journal of Industrial Economics*. 33(4): 427-44?

Jensen, Michael C. and Richard S. Ruback. (1983). "The Market for Corporate Control: The Scientific Evidence," *Journal of Financial Economics*. 11: 5-50.

*Scheffman, D., and P. Spiller. (1987). "Geographic Market Definitions under the U.S. Department of Justice Guidelines," *Journal of Law and Economics*. 123-147.