

ECONOMICS 121 INDUSTRIAL ORGANIZATION AND PUBLIC POLICY

The course will be taught in two parts. Professor Richard Gilbert will lecture for the first half of the course. Professor Joseph Farrell will lecture for the second half. This syllabus is for the first half of the course only.

Economics 121 is an introduction to the field of industrial organization. Industrial organization deals generally with the structure, management and performance of firms. Among the particular subjects we will study are the determinants of market structure, the measurement of firm costs, the pricing decisions of firms, strategic interactions among firms, and the effects of structure and conduct on prices and non-price dimensions of market performance.

Industrial organization provides a foundation for the study of many other fields that rely on an understanding of interactions among firms in the economy, including antitrust policy, regulation and business strategy. The focus of industrial organization is the effect of market structures on consumer welfare (for example, do monopolistic market structures necessarily hurt consumers?). Antitrust and regulation deal with the appropriate scope for government intervention in the workings of markets, and business strategy deals with tactics to achieve competitive advantage.

Completion of a course in microeconomic theory at the intermediate level (e.g. Economics 100A or 101A) is a *prerequisite* for this course. I will assume that you have a basic understanding of such concepts as marginal and average cost, the perfect competition model and pricing by a monopolist. Accordingly, I will review these concepts only briefly. Calculus is not required, but a willingness to engage in analytical thinking and to build on what you were supposed to learn in Econ 100A or 101 A is a necessity.

Required texts:

Carlton & Perloff, *Modern Industrial Organization*, Addison Wesley, 4th Ed., 2005

Office Hours:

Tuesdays 2:00-3:30 in 591 Evans, and by appointment. You can reach me at 642-1507, or (preferably) e-mail gilbert@econ.berkeley.edu. I am available to advise you on matters that relate to this course or to your other economics interests. Complaints about why you should have gotten a higher grade are another matter. Your GSI knows best.

Lectures: 8:00 – 9:30 Tuesday and Thursday, 534 Davis

Sections: GSI: Nate Miller

Number	Time	Location
101	W 4-5	106 Wheeler
102	F 12-1	3 Evans

Nate Miller will take attendance and students **must attend** the section in which they are officially enrolled to avoid being dropped from the class. GSIs do not have the authority to add students to their sections or to switch students to different sections. Section changes must be done through TELEBEARS. Anyone who wants to add the class must follow official procedures, which involve filling out a Request for Class Admission (form in 508-1 Evans) and putting themselves on the TELEBEARS waiting list.

Paper: There is a required paper. The paper can be based on your participation in an in-class mock antitrust trial, or it can be on a separate topic. You must present your topic to the GSI and obtain approval before you submit your paper. Papers should be about 10 pages typed, 1.5 spacing, plus references.

Problems sets, presentations, and study groups: Problem sets are designed to help you practice and learn how to apply concepts introduced in the lectures and to help prepare you for exams. You may work on the problem sets as a part of a study group, consisting of no more than three persons. All members of a study group will receive the same grade. You must inform your GSI (in advance) that you will be working as part of a study group.

The table below shows the tentative schedule for problem sets, the paper and exams. Professor Farrell will schedule problem sets for his half of the course.

Assignment	Handed Out	Date Due	Weight in Final Grade
Problem Set 1	Sep 11	Sep 25	5%
Problem Set 2	Oct 2	Oct 16	5%
Problem Set 3	TBD	TBD	5%
Midterm		Oct 23	25%
Problem Set 4	TBD	TBD	5%
Paper		Dec 6	15%
Final		Dec 17	40%
Extra credit		ongoing	Max + 5%

COURSE OUTLINE

C&P = Carlton & Perloff

<u>DATE</u> (approx.)	<u>TOPIC & READINGS</u>
Aug 28	Overview C&P, Ch 1 White, "Trends in Aggregate Concentration in the United States," <i>Journal of Economic Perspectives</i> , Autumn, 2002, pp. 137-160.
Aug 30 – Sep 6	Theory of the Firm and Competition C&P, Ch 2-3 Optional reading: U.S. v. American Airlines (available at http://www.usdoj.gov/atr/cases/f8100/8134.htm)
Sep 11 – Sep 13	Monopolies, Monopsonies and Dominant firms C&P, Ch 4
Sep 18	U.S. v. Microsoft (available at http://www.usdoj.gov/atr/cases/f3800/msjudgex.htm)
Sep 20 – Sep 25	Cartels C&P, Ch 5
Sep 27 – Oct 2	Oligopoly C&P, Ch 6
Oct 4 – Oct 9	Product Differentiation and Monopolistic Competition C&P, Ch 7
Oct 11	Mergers DOJ & FTC, Horizontal Merger Guidelines, 1992 (available at http://www.usdoj.gov/atr/public/guidelines/hmg.htm)
Oct 16	U.S. v. Oracle (available at: http://www.usdoj.gov/atr/cases/f205300/205388.htm)
Oct 23	Midterm Exam (covers through Mergers)