Course Description
This course examines how, in the search for profits, firms exercise market power in a variety of settings and considers how government may curb the negative side effects through regulation. Both monopoly and oligopoly market structures will be considered. We will investigate why monopolies occur, how they price and what the government should do in response. In oligopoly we consider what determines industry structure, through for example entry and exit or mergers, and the role of government regulation. For a variety of market structures we analyse firm strategies over prices, bundling, secondary markets, and product characteristics. Particular attention will be given to dynamic competition and collusion. The course emphasizes the importance of a theoretical understanding of strategic behaviour as the foundation for any practical application to industry.

Lecturers: Arghya Ghosh, Kieron Meagher, Hodaka Morita.

Prerequisites: Econ6001.


Tirole is the require text and is the standard for a course at this level. You may however want to refer to these other text books:


Topics
Not all of the following topics will be taught. The depth and inclusion of topics will depend on student and instructor interest.

I. Monopoly
A. Basic Monopoly Pricing and Durable Goods
B. First and Third Degree Price Discrimination
C. Second Degree Price Discrimination
D. Product Durability and Market Power

II. Introduction to Strategic Behavior and Static Competition
A. Introduction to Strategic Behavior
B. Prices and Output
C. Antitrust Analysis of horizontal mergers
III. Dynamic Competition and Collusion
   A. Theory
   B. Empirical Evidence

IV. Entry
   A. Basic Theory
   B. Empirical Evidence

V. Strategic Investment to Enhance Market Power
   A. General Considerations
   B. Capacity, Product Differentiation, Learning Curves, Contracts
   C. Empirical Evidence on Strategic Investment

VI. Information and the Strategic Use of Market Power
   A. Limit Pricing
   B. Predation
   C. Empirical Studies of Information Asymmetries and Predation

VII. Technological Change
   A. Research and Development
   C. Diffusion of Technologies
   D. Empirical Studies

Extended Reading List

The attached reading list is quite long, but we do not expect you to read everything. We have included more papers than we will study so that for any topic in which you are interested you have a starting point for further reading.

I. Monopoly Pricing

   A. Basic Monopoly Pricing and Durable Goods

      Tirole, Chapter 1 (including supplementary section).

   B. First and Third Degree Price Discrimination

      Tirole, Sections 3.0 - 3.2


C. Second Degree Price Discrimination

Tirole, Sections 3.3 - 3.5


D. Product Durability and Market Power


II. Introduction to Strategic Behavior and Static Competition

A. Introduction to Strategic Behavior

Tirole, pp. 205-208 and Chapter 11.

B. Prices and Output

Tirole, Chapters 2.1 and 5.


A. Sorensen, “Equilibrium Price Dispersion in Retail Markets for Prescription Drugs,” mimeo.

C. Antitrust Analysis of Mergers


III. Dynamic Competition and Collusion

A. Theory

Tirole, Chapter 6.


**B. Empirical Evidence**


**IV Entry**

**A. Basic Theory**

Tirole, Sections 7.1-7.2


B. Empirical Evidence


V. Strategic Investment

A. General Considerations

Tirole, pp. 207-8, Chapter 8.


R. Gilbert, "Mobility Barriers and the Value of Incumbency," in *HANDBOOK OF INDUSTRIAL ORGANIZATION*.

B. Capacity, Product Differentiation, Learning Curves, Contracts


**C. Empirical Evidence on Strategic Investment**


**VI. Information and the Strategic Use of MarketPower**

**A. Limit Pricing**

Tirole, Sections 9.0 - 9.4.


**B. Predation**

Tirole, Sections 9.5 - 9.7.


J. Ordover and G. Saloner, "Predation, Monopolization and Antitrust," in HANDBOOK OF INDUSTRIAL ORGANIZATION.

C. Empirical Studies of Information Asymmetries and Predation


Hubbard, T., “Consumer Beliefs and Buyer and Seller Behavior in the Vehicle Inspection Market, mimeo.


VII. Technological Change

A. Research and Development
Tirole, Sections 10.1 - 10.5, 8.1.3


B. Standardization


C. Diffusion of Technologies


D. Empirical Studies


