

**SYLLABUS FOR ECONOMICS 661
INDUSTRIAL ORGANIZATION
SPRING 2006**

DEPARTMENT OF ECONOMICS, UNIVERSITY OF MARYLAND

- PROFESSOR:** Keith Waehrer
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econ661@waehrer.net
- LECTURES:** Tuesdays from 6:30pm to 9:00pm in Tydings 1108
- OFFICE HOURS:** Available by pre-arrangement before or after class
- READINGS:** The reading material for this class will come from a combination of readings from Tirole (1995) *The Theory of Industrial Organization* Cambridge: MIT Press and from individual journal articles.
- CLASS WEB SITE:** <http://econ661.waehrer.net>
- GRADES:** My tentative plan is to base grades on a mid-term exam (60%), a term paper (30%) due the last day of class, and an in class presentation of a published paper (10%). I will schedule presentations for the last few class meetings. The mid-term will be scheduled for the class before these presentations start so that it will be similar to a final exam in that it will cover all of the material from my lectures. The exact schedule will depend on the number of registered students. I am open to change this tentative plan based on student preferences.
- TERM PAPER:** The paper should contain a review of the literature on a topic within IO along with discussions of the literature's fundamental results and of possible extensions to the literature. In some cases you may be able to work out some initial results for one of the proposed extensions. Your topic need not be one that is specifically covered in this course. (So if one of the subjects covered in Econ662 really interested you, here is your chance to cover it in more detail.) You will be required to turn in a one paragraph proposal well before the paper is due.
- PROBLEM SETS:** I will periodically hand out problems sets and post answer sheets on the course web site.

READING LIST

(TENTATIVE)

1. PRODUCT SELECTION, QUALITY, AND ADVERTISING

Tirole: Chapter 2

Akerlof (1970) "The Market for 'Lemons': Qualitative Uncertainty and the Market Mechanism." *Quarterly Journal of Economics* **84**: 488-500.

Shapiro (1983) "Premiums for High Quality Products as Rents to Reputation." *Quarterly Journal of Economics* **98**: 659-680.

Milgrom and Roberts (1986) "Prices and Advertising Signals of Product Quality." *Journal of Political Economy* **94**: 796-821.

Chiang and Masson (1988) "Domestic Industrial Structure and Export Quality." *International Economic Review* **29**: 261-270.

2. PRODUCT DIFFERENTIATION

Tirole: Chapter 7

Salop (1979) "Monopolistic Competition with Outside Goods." *Bell Journal of Economics* **10**: 141-156.

Grossman and Shapiro (1984) "Informative Advertising with Differentiated Products." *Review of Economic Studies* **51**: 63-82.

Hart (1985) "Monopolistic Competition in the Spirit of Chamberlin: A General Model." *Review of Economic Studies* **52**: 529-546.

Sattinger (1984) "Value of an Additional Firm in Monopolistic Competition." *Review of Economic Studies* **51**: 321-332.

Stole (1995) "Nonlinear Pricing and Oligopoly." *Journal of Economics & Management Strategy* **4**: 529-562.

3. SEARCH AND SWITCHING COSTS

Klemperer (1987) "Markets with Consumer Switching Costs." *Quarterly Journal of Economics* **102**: 375-394.

Farrel and Gallini (1988) "Second-Sourcing as Commitment: Monopoly Incentives to Attract Competition." *Quarterly Journal of Economics* **103**: 673-694.

Diamond (1971) "A model of Price Adjustment." *Journal of Economic Theory* **3**: 156-168.

Dudey, M. (1990) "Competition by Choice: The Effect of Consumer Search on Firm Location Decisions." *American Economic Review* **80**:1092-1104.

4. TWO-SIDED MARKETS

- Rochet and Tirole (2005) "Two-Sided Markets: An Overview" *IDEI Working Paper*, n. 275, November 2005.
- Rochet and Tirole (2005) "Platform Competition in Two-Sided Markets." *Journal of the European Economic Association* **1**: 990-1029.
- Armstrong and Wright (2004) "Two-Sided Markets, Competitive Bottlenecks and Exclusive Contracts." Mimeo
- Armstrong (2005) "Competition in Two-Sided Markets." Mimeo.
- Schwartz and Vincent (2006) "The No Surcharge Rule and Card User Rebates: Vertical Control by a Payment Network." Mimeo.
- Wright (2003) "Optimal Card Payment Systems." *European Economic Review* **47**: 587-612.

5. THEORY OF THE FIRM

- Tirole: Pages 15-56.
- Coase (1937) "The Nature of the Firm." *Economica* **4**: 386-405.
- Holmstrom (1999) "The Firm as a Subeconomy." *Journal of Law, Economics, and Organization* **15**: 74-102.
- Williamson (1989) "Transaction Costs Economics." In Schmalensee & Willig (eds.) *Handbook of Industrial Organization*, 135-182.
- Grossman and Hart (1986) "The Costs and Benefits of Ownership: A Theory of Lateral and Vertical Integration." *Journal of Political Economy* **94**: 691-719.

6. VERTICAL CONTROL

- Tirole: Chapter 4
- Deneckere, Marvel, and Peck (1996) "Demand Uncertainty, Inventories, and Resale Price Maintenance." *Quarterly Journal of Economics* **111**: 885-913.
- Blair and Lewis (1994) "Optimal Retail Contracts with Asymmetric Information and Moral Hazard." *Rand Journal of Economics* **25**: 284-296.
- Shepard (1993) "Contractual Form, Retail Price, and Asset Characteristics in Gasoline Retailing." *Rand Journal of Economics* **24**: 58-77.

7. REGULATION AND INCENTIVE CONTRACTS

- Laffont and Tirole (1993) *A Theory of Incentives in Procurement and Regulation* Cambridge: MIT Press.
- Armstrong and Sappington (2005) "Recent Developments in the Theory of Regulation." Forthcoming in the *Handbook of Industrial Organization (Vol. III)*, edited by Armstrong and Porter.
- Besanko and Sappington (1987) *Designing Regulatory Policy with Limited Information*. New York: Hardwood Academic Publishers
- Averch and Johnson (1962) "Behavior of the Firm Under Regulatory Constraint." *AER* **52**: 1052-1069.

- Hsieh and Moretti (2003) "Can Free Entry Be Inefficient? Fixed Commissions and Social Waste in the Real Estate Industry." *Journal of Political Economy* **111**: 1076-1122.
- Baron (1989) "Design of Regulatory Mechanisms and Institutions." in Schmalensee, R. and Willig, R. (eds.) *Handbook of Industrial Organization*, Elsevier Science Publishers.
- Braeutigam, R. (1989) "Optimal policies for natural monopolies." in Schmalensee, R. and Willig, R. (eds.) *Handbook of Industrial Organization*, Elsevier Science Publishers.
- Loeb, M. and Magat, W. (1979) "A decentralized method for utility regulation." *The Journal of Law and Economics* **22**: 399-404.
- Baron, D. and Myerson, R. (1982) "Regulating a Monopolist with Unknown Costs." *Econometrica* **50**: 911-930.
- Laffont and Tirole (1988) "The Dynamics of Incentive Contracts." *Econometrica* **56**: 1153-1175.
- Cremer and Mclean (1985) "Optimal Selling Strategies under Uncertainty for a Discriminating Monopolist When Demands Are Interdependent." *Econometrica* **53**: 345-361.