

YORK UNIVERSITY
Department of Economics
Economics 5430 - Industrial Organization
Fall 2017

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Textbook: The Theory of Industrial Organization, Jean Tirole

Other useful reference books

1. General

Handbook of Industrial Organization, Schmalensee and Willig.

Industrial Economics: Economic Analysis and Public Policy, Stephen Martin.

Industrial Organization, Theory and Application, Oz Shy.

2. Games and Information

A Course in Microeconomic Theory, David M. Kreps

Games and Information, Eric Rasmusen

Microeconomic Theory, Mas-Collel, Whinston and Green

Thinking Strategically, Dixit and Nalebuff.

3. Classics (non technical)

Scherer and Ross: Industrial Market Structure and Economic Performance

Shepherd W.G.: The Economics of Industrial Organization

Kahn A: The Economics of Regulation: Principles and Institutions

4. Costs and market structure:

Baumol Panzar and Willig: Contestable Markets and the Theory of Industrial Structure

5. Additional references (articles) will be provided for the various topics.

TOPICS:

1. Introduction and Methodology

Quick Review: Old and new IO, competitive equilibrium, welfare criteria, the second best problem.

2. Bargaining: Cooperative and non-cooperative bargaining models.

3. The Theory of the Firm:

What is a firm and what are its objectives? Principal-Agent problems; signalling; contracts; opportunistic behaviour and delegation of power.

4. Monopoly: The monopoly model, measures of market power, distortions, rent seeking, quality selection with perfect and imperfect information, warranties, price discrimination and vertical control.

5. Brief Review of game theory - Static and dynamic games with perfect and imperfect information.

6. Traditional static oligopoly models: Cournot-Nash, Stackelberg, tacit collusion, cartels and mergers, measures on market power and non-competitiveness.

7. Price competition: Static price competition - Prices and quantity competition, Bertrand Paradox. Dynamic price competition models.

8. Product Differentiation and Advertising: horizontal and vertical differentiation, non-spatial differentiation, monopolistic competition, advertising and information.

9. Entry Deterrence: Contestability, barriers to entry, accommodation and deterrence, pre-commitments.

10. Imperfect Information: Static and dynamic competition models with imperfect information, entry deterrence, bargaining.

GRADING:

There will be one midterm exam on October 17, 2017, worth 25% and a final exam worth 75% (to be held during the exam period).

IMPORTANT INFORMATION FOR STUDENTS

All students are expected to familiarize themselves with the following information, available on the Senate Committee on Curriculum & Academic Standards webpage (see Reports, Initiatives, Documents) - http://www.yorku.ca/secretariat/senate_cte_main_pages/ccas.htm

- York's Academic Honesty Policy and Procedures/Academic Integrity Website
- Ethics Review Process for research involving human participants
- Course requirement accommodation for students with disabilities, including physical, medical, systemic, learning and psychiatric disabilities
- Student Conduct Standards
- Religious Observance Accommodation

REFERENCES:

These are some interesting & useful articles (or books), mainly on imperfect information. Not all are easy to read, but you may want to look at some of them. Most of the issues in these references will be addressed (in some fashion) in class (more references will be provided as the course progresses).

Akerlof, G., The Market for Lemons: Qualitative Uncertainty and the Market Mechanism, *Quarterly Journal of Economics*, 84.

Alchian and Demsetz (1972), "Production Information Costs and Economic Organization", *AER* 62, 777-795.

Brander, J.A. and B. Spencer, "Moral Hazard and Limited Liability: Implications for the Theory of the Firm", *International Economic Review*, 30, 4, (1989).

Che, Y-K and D.B. Hausch, (1999), "Cooperative Investment and the Value of Contracting", *American Economic Review* 89, (1), 125-147.

Chiu, Y.S., (1998), "Noncooperative Bargaining, Hostages, and Optimal Asset Ownership", *American Economic Review*, Vol. 88 (4), 882-901.

Coase, R., (1937), The Nature of the Firm, *Economica*, 4, 386-405.

Cyert, R. and J. March, (1963), *Behavioural Theory of the Firm*.

Darrough, M. and N. Stoughton, (1986), "Moral Hazard and Adverse Selection: The Question of Financial Structure," *Journal of Finance*, 41.

Fama, E., (1980) Agency Problems and the Theory of the Firm, *JPE* 88, 288-307.

Grossman, S. and O. Hart, (1986), "The Costs and benefits of Ownership: A Theory of Vertical and Lateral Integration", *Journal of political Economy*, 94, 691-719.

Grossman, S., and O. Hart, (1983), An Analysis of the Principal Agent Problem, *Econometrica*, 51.

Guesnerie and Laffont, (1984), A Complete Solution to a Class of Principal Agent Problems with ...", *J. Public Economics*, 25.

Hart, O. and B. Holmstrom, (1987), The Theory of Contracts, in *Advances in Economic Theory*, ed. T Bewley.

Hart, O., (1995), *Firms, contracts, and financial structure*, Clarendon Lectures in Economics. Oxford and New York: Oxford University Press,

Hart, O., The Market Mechanism as an Incentive Scheme, *Bell Journal of Economics*, 74.

Holmstrom and Tirole, (1987), The Theory of the Firm. In *Handbook of Industrial Organization*, ed. Schmalensee and Willig.

Holmstrom, B. (1979), Moral Hazard and Observability, *Bell Journal of Economics*, 10.

Holmstrom, B. (1982), Moral Hazard in Teams, *Bell Journal of Economics*, 19.

Jensen and Meckling, (1976), Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure, *Journal of Financial Economics*, 3.

Maskin and Riley, (1984), Monopoly with Incomplete Information, *Rand Journal of Economics*, 15.

Milgrom and Roberts, (1986), Prices and Advertising Signals of Product Quality, *Journal of Political Economy*, 94.

Mookherjee, D., (1984), Optimal Incentive Schemes with Many Agents, *Review of Economic Studies*, 51.

Myerson and Satterwaite, (1983), Efficient Mechanisms for Bilateral Trading, *JET* 28.

Rogerson W., (1985) The First-Order Approach to Principal-Agent Problems, *Econometrica* 53.

Salop, S., (1977), The Noisy Monopolist, *Review of Economic Studies*, 44.

Spence M. (1973), Job Market Signaling, *Quarterly Journal of Economics*, 87.

Spence M. (1974), *Market Signaling*, Harvard University Press.

Stiglitz, J., (1977), Monopoly, Nonlinear Pricing, and Imperfect Information: The Insurance Market. *Review of Economic Studies*, 44.

Varian, H., (1987), Price Discrimination, in *Handbook of Industrial Organization*, ed. Schmalensee and Willig.

Williamson, O., (1985), *The Economic Institutions of Capitalism*.

Willig R. (1976), Consumer's Surplus Without Apology, *AER*, 66.

Wilson, C., (1977), A Model of Insurance Markets with Imperfect Information, *Journal of Economic Theory* 16.