

Economics 4470: CRN: #18462
Industrial Organization, Regulation and Antitrust Economics
Spring 2009
Dr. Bruce A. Seaman

Time and Location: TR: 1:00-2:15 P.M.; General Classroom #229

Administrative: Office: 532 AYSPS Building (14 Marietta Street); Phone: 404-413-0157; Fax: 404-413-0145; email: bseaman@gsu.edu. Office hours are flexible, so it is best to contact me to arrange meetings, or ask me after class. I am generally available TR between the end of class and 5:30 P.M.

Catalog Description: The theory of government regulatory and antitrust policies and their effects on the competitive performance of the economy and the behavior of individual firms and industries. Specific topics include an economic and some legal analysis of mergers, price discrimination, predatory strategies, tying contracts, resale price maintenance, cost-benefit studies, product and worker safety, the environment, and deregulation issues in telecommunications, transportation and other industries, with special emphasis on modern landmark cases and the role of economics in affecting public policy.

Prerequisites: Principles of microeconomics (Econ 2106) is the minimum requirement, but a course in intermediate microeconomics (Econ 3910) is recommended. Key topics will be reviewed for economics and non-economics majors alike, and the especially complex text material will be clarified in class.

Required Texts:

Roger Sherman, (S), *Market Regulation*, Pearson/Addison Wesley, 2008.

John E. Kwoka, Jr. and Lawrence J. White (KW), *The Antitrust Revolution: Economics, Competition and Policy*, 5th Edition, Oxford Press, 2009.

uLearn: You should already be enrolled via uLearn for this course. It is important that you regularly monitor this site for critical information about the course, including sample exams and sample solutions, clarifications of the schedule and lectures, and discussions and attachments that typically include material that will appear on exams. Your grades will also be posted in the Grade Book section. If you are registered, and have paid your tuition and fees, and do not yet appear on uLearn for this course, please send me an email message with your uLearn identification info.

Exams: Two exams and a non-comprehensive final exam are scheduled (total of three exams). All exams are “open-book and open notes.” There will also be an optional case analysis that can be used to improve your lowest exam grade prior to the final. Discussion based on the cases and the end-of-chapter questions is important. Some sample exam questions and problems will also

be discussed in class. Your highest exam grade will be weighted slightly higher than the other exam grades, and borderline grades may be influenced by class participation and improvement shown throughout the semester. Note that the Georgia State University policy on academic honesty fully applies to this course. No cheating of any kind will be tolerated. Violators are severely punished as described in the university catalog, and several students were just disciplined under this policy last semester.

Grading Policy: This course utilizes the +/- system (including the new A+ option) based on university-wide policy. Each exam is assigned a numerical grade, and based on the average numerical grade and the distribution of the grades around that average, a letter grade is assigned (i.e. the grades are “curved”). Each letter grade in turn has a numerical equivalent on a scale of 12 points, with examples of A+ = 12; A = 11; B = 8; C+ = 6; D+ = 3; F = 0 etc.). Your course grade is based on weighting these scores into a final numerical score that has an equivalent letter grade. For example, assume your exam grades were B; C+ and A-. Note that if you choose to do the optional case analysis, any additional points obtained are used to improve the lowest of the two exam scores prior to the final exam (e.g., assume that the C+ you got on the second exam already includes an upward adjustment from your actual exam grade of C). The final grade calculation is then as follows: Your highest grade is weighted at 40%, and the other grades have a 30% weight. So you have $0.30(8) + 0.30(6) + 0.40(10) = 8.2$ points = B. Typically, prior to any possible tie-breaker improvements based on class participation, the numerical score is rounded to the next whole number score, so 8.2 is still a B, while an 8.6 would have been rounded to 9.0 for a B+. Sometimes an exam grade is between two letter grades. For example, you might get a C/C+, which is on the borderline of a C and a C+. This would translate into 5.5 points for that exam (i.e. C = 5 points and C+ = 6 points).

Attendance Policy: University and government assistance policy requires that attendance be monitored so that students can be withdrawn if they are not regularly participating in the course and to avoid legal problems with scholarship funding sources. It is therefore imperative that any students who must miss more than two consecutive classes (for health or other legitimate reasons) notify the instructor so that no student is automatically withdrawn incorrectly. Spot checks are made of attendance, as well as periodic questions posed to students in class to encourage class discussion as well as monitor attendance. More importantly, class lectures, case discussion and problem solving will frequently expand beyond the text material and are important for success on exams. You are responsible for obtaining any material that you have missed. Scheduling conflicts regarding exams must be resolved in advance of the exam, except in the case of legitimate emergencies. Missed exams can result in an “F” for that exam.

Course Schedule and Assignments: Note that March 2 is the last day to withdraw with a “W” rather than a “WF.” **Remember that you have a limited number of W grades that you are allowed to accumulate as an undergraduate at Georgia State.** At times questions will be posted to “guide your reading” of the various very interesting cases that are in KW. It is important to read the text so that I can clarify the more difficult concepts in class, prior to our discussing how those concepts actually apply to the real issues in specific industries in the casebook. **Note that this is a basic outline for the course; some modifications may be**

necessary, but will be announced in advance; agenda updates for the following week are provided on uLearn by Friday of the previous week.

Date: Topics and Relevant Reading: (S and KW refer to the texts)

01/06: Introduction; administrative details.

01/08: Overview and review of essential economic concepts. Introduction to the rationale for regulation and antitrust policies; the relevant history of regulation and antitrust in the U.S.

S: Ch. 1
Ch. 8, pp. 258-278
Ch. 12, pp. 411-416
KW: Introduction (pp.1-5)
“Intro lecture” notes: see uLearn

01/13: What does it mean to “let it all up to the market?” Review and extension of basic principles of cost functions, profit maximization and competitive market behavior; the debate about the social costs of monopoly; cost-inefficiency and rent-seeking; other market failures.

KW: Part I: “Horizontal Structure: The Economic and Legal Context,” pp. 8-15
S: Chapter 2

01/15: The debate about the social costs of monopoly; cost-inefficiency and “rent-seeking,” and other market failures.

C: Chapter 3

01/20: The modern business firm: key issues and theoretical principles. Determinants of relevant economic markets; horizontal mergers and potential antitrust implications; the joint merger guidelines; the efficiency/market power trade-off

S: Ch. 4

01/22: Determinants of relevant economic markets; horizontal mergers and potential antitrust implications; the joint merger guidelines; the efficiency/market power trade-off

S: Ch. 8, pp. 283-288.
S. Ch. 9, pp. 296-303.
KW: Economic and Legal Context; pp. 15-29.

S: Ch. 5, pp. 162-169 (Section 5.4)

01/27: Finish prior topics; Merger cases: Staples-Office Depot and market definition.

Lecture notes on market definition: “Apples and Oranges”; see uLearn
KW: Case 7: Staples-Office Depot (1997)

01/29: More merger case discussion

KW: Case 2: Oracle and PeopleSoft (2004)
KW: Case 4: EchoStar and DirecTV (2002)

02/03: The efficiencies defense to an otherwise potentially anti-competitive merger

KW: Case 6: Heinz and Beech-Nut (2001)

02/05: Classic oligopoly models and implications for merger analysis; illustrative merger cases

S: Ch. 5 (all but the previously read section 5.4); appendices optional
KW: Case 5: Cruise Line mergers (2002)
KW: Case 3: Arch Coal merger (2004)

02/10: Catch-up on prior cases and topics

02/12: Sample exams; preparation for Exam I

Do sample exam questions in class; see u-Learn

02/17: Midterm Exam I

02/19: Non-cooperative and cooperative strategies and antitrust implications; price fixing background and analysis

S: Ch. 6; to page 197 only (stop at Multi-product pricing)
S: Ch. 9, section 9.2 to p. 320 (stop at “Vertical Restraints of Trade”).
KW: Part II: “The Economic and Legal Context: Cartels, Collusion and Cooperation, pp.202-209.

02/24: Return and discuss Midterm Exam (note that grades will probably have been posted on My Grades over the weekend)

02/26: Price Fixing cases; the analysis of antitrust damages linked to collusion

KW: Case 12: Bid Rigging and School Milk Prices (1994)
KW: Case 11: Lysine litigation (1996)

03/03: NO Class; Spring Break

03/05: NO Class; Spring Break

03/10: Should all collusion be *per se* illegal? The economic approach to collusion and other key cases; Robinson-Patman Act and price-discrimination

Posner Handout posted on uLearn

KW: MIT Financial Aid case posted as pdf file on u-Learn (1993)

S: Ch. 9, pp. 303-305 (Price Discrimination)

03/12: Predation strategies and monopolization; theory and initial important predation case

KW: Conclude Economic and Legal Context (“Predation and Exclusion”), pp. 209-218.

S: Ch. 9, pp. 305-307 (Predatory Pricing)

KW: Matsushita v. Zenith et al (1986); posted on uLearn

03/17: More predatory pricing cases; the policy challenge

KW: Case 8: Spirit Airlines v. Northwest Airlines (2005)

KW: Case 10: Lepage’s v. 3M (2003)

03/19: Exclusionary contracts; essential facilities; vertical restraints; dynamic industries and antitrust

KW: Part III, “The Economic and Legal Context,” pp. 352-364.

S: Ch. 6, pp. 197-203

S: Ch. 9, pp. 307-309; and pp. 320-325.

03/24: Key vertical cases; exclusive dealing; tying; vertical restraints

KW: Case 13: Trident v. Independent Ink (2006)

KW: Case 14: U.S. v. Dentsply (2005)

KW: Case 16: Toys-R-Us (2000)

03/26: Network Economics; Microsoft

KW: Part IV, “The Economic and Legal Context,” pp. 474-486

KW Case 20: Microsoft (2001)

S: Ch. 8; section 8.5, pp. 278-283
S: Ch. 9, pp. 326-333.

03/31: EXAM II

04/02 Return and briefly discuss exams. More extensive analysis of direct regulatory policy; theories of regulation; specific industry example: telephone networks

S: Ch. 10, pp. 337-347; also, section 10.3
KW: Case 18: Trinko (2004)

04/07: Finish discussion from 04/02. More on networks: credit cards. Transportation regulation; ground and airline transport

KW: Case 19: Visa and MasterCard (2003)
S: Ch. 16

04/09: Energy Issues: oil, natural gas and alternative energy sources

S: Ch. 17

04/14: Financial market regulatory issues

S: Ch. 24

04/16: Intro to “Social Regulation:” health, safety and the environment; How do we “value a life?”

S: Ch. 19
S: Ch. 20

04/21: How can we apply “cost-benefit” analysis to issues of life and death, continued? Environmental regulation; workplace safety applications.

S: Ch. 21
S: Ch. 22

04/23: Product safety regulation; Catch-up with past reading and discussion; Review for final exam; sample exams and solutions; if time permits, highlights of issues important to banking industry regulation

S: Ch. 23

Final Exam: Tuesday, April 28; 12:30 P.M. NOTE the time difference from regular class. Non-

comprehensive exam based only on topics since the second Midterm Exam; same basic format as the other exams, except that the final is 2.00 hours rather than only 1.25 hours.