Economics 8440/Spring 2012 (CRN: 13924 or 18198 for cross-list)
Bruce A. Seaman, Ph.D.
Industrial Organization and Antitrust Economics

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TIME AND LOCATION: 7:15-9:45 P.M., Thursdays only. ALC #203

CATALOG DESCRIPTION: This course applies microeconomic analysis to the study of firm strategies and industry behavior, with special emphasis on those horizontal and vertical interactions that have been subject to antitrust scrutiny. Specific examples include price fixing, mergers, tying contracts, exclusive dealer and territorial arrangements, price discrimination, boycotts and reciprocity, and various predation strategies. Doctrinal disputes are explored and specific cases studied in light of the academic literature in industrial organization.

PREREQUISITES: Formally, EC 3910 (intermediate microeconomics) or MBA 8403. Ideally, students have also taken at least EC 8100, the first micro-theory course in the graduate micro sequence, and also have taken EC 6030, Math for Economists I, or its equivalent, but those latter courses are not formally identified as prerequisites.

COURSE REQUIREMENTS:

TEXTS:


Additional readings will be assigned from other texts, journals, personal reports, newspaper articles, and DOJ Antitrust Division and FTC websites. The European Commission website is also quite interesting, and will also be utilized at times. Note that hardcopies will only be distributed if the articles are NOT available electronically at www.jstor.org, or at another source. Most readings, sample exams, and lecture notes will be available on uLearn.

COMPANION TEXTS: The following texts can serve as a useful source of additional non-journal treatment of important topics. Some chapters from these texts may be required as part of the supplemental reading, and this list serves as the full citation for any such readings. (These texts are NOT required).
Industrial Organization: A Strategic Approach, Jeffrey Church and Roger Ware, Irwin-McGraw Hill, 2000 (Online version available, and will sometimes be referenced)


USEFUL JOURNALS: The following journals are especially important. Most of the supplemental readings are assigned from these sources, and this list highlights some of the most useful and readable journals related to the material in this course. These journals can be found in the economics department, Pullen Library and/or the Law Library.

American Economic Review
The Antitrust Bulletin (Law Library)
The Journal of Law and Economics (Law Library)
Review of Industrial Organization
The Journal of Business
Journal of Law, Economics and Organization (Law Library)
Antitrust Law Journal (Law Library)
Supreme Court Economic Review (Law Library)

EXAMS AND GRADING SYSTEM:

There is a midterm exam and a final exam, each constituting 40% of the final grade. These exams will require more than the usual class time and will be flexibly scheduled over a 24-hour period (electronically delivered and then due 24 hours later). The remaining 20% of the grade depends on factors such as class discussion and other in-class assignments (possibly including a short paper). The size of the class may make it difficult to assign specific students to be discussion leaders, but efforts will be made to stimulate class discussion. Also, sample exams are available on uLearn, along with announcements and possible supplemental lecture material and other attachments. Please check uLearn regularly. Consistent with university policy regarding the + and – grading option, all courses in the Andrew Young School of Policy Studies assign + and – grades where applicable (A+ is now also a final grade option, although given only in extraordinary circumstances). Such grades are given in this course both to exams and the final course grade. Exam grades are adjusted for the level of difficulty and the average performance of the class when translating numerical scores into letter grade equivalents.
ATTENDANCE POLICY:

Since the class is presented in lecture/seminar/discussion format, regular attendance and participation are important. University and federal government regulations also require that instructors ensure that enrolled students are actually taking the course to guarantee eligibility for any applicable financial aid. Therefore, it is best to notify the instructor if you must miss more than two classes at a time (due to illness or scheduling conflicts) to avoid triggering the automatic withdrawal procedures.

COURSE OBJECTIVES: This course provides a comprehensive, technical and applied policy oriented analysis of the microeconomics of industrial organization, including the firm and industry strategies that have come under the scrutiny of antitrust laws. Most of these topics are missed in standard micro-theory courses. Students are expected to gain sophistication in the application of micro-theory to IO and antitrust issues, knowledge of the remaining controversies and doctrinal disputes, and an appreciation for the legal issues involved. Comparisons are also made between the United States and other countries (including most typically the European Community) in the way that competition policy is implemented, and the degree to which cooperation exists in the enforcement of antitrust laws internationally.

COURSE SCHEDULE AND ASSIGNMENTS: Text chapters refer to Carlton and Perloff, and are merely designated by Ch. 1 etc. The cases refer to Kwoka/White (KW). February 24 is the last day to withdraw and receive a “W.” This schedule may be modified and is not a “contract.” Any changes in the required reading, including substitutions of outside reading, will be announced well in advance. A syllabus is a general plan for the course; changes may be necessary. In particular, some changes in the outside journal article reading may occur as more recent papers are evaluated, or some optional reading is dropped to keep us on schedule.

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<tr>
<th>Date</th>
<th>Topics and Required Reading</th>
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<tr>
<td>1/12</td>
<td>Introduction, Divergent Approaches to IO and Antitrust; Background to the Antitrust Laws and Institutional Information</td>
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<tr>
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<td>Ch. 1, “Overview”</td>
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<td>Ch. 19, pp. 631-642; intro principles and institutional information</td>
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<td>Ch. 19, pp. 642-end (read briefly as an overview of many of the issues to be discussed in this course - can be read again during the semester as a review)</td>
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<td>KW, Preface and Introduction</td>
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<td>1/19</td>
<td>Welfare Economics; The Debate About Monopoly and its Effects; Oligopoly; X-</td>
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Inefficiency and Rent Seeking (“classic” papers on these important topics).

Ch. 3, “Competition” (this should be a review of basic concepts)
Ch. 4, “Monopolies, Monopsonies and Dominant Firms”
Ch. 6, “Oligopoly”

1/26: Conclude Welfare Debate; Market Definition Analysis; Clarification of the Relationship between Market Power and Market Definition; Problem on Market Definition for discussion; Initial Case Example

Excerpts from William Schugart, III, The Organization of Industry, Irwin, 1990, Chapter on “Market Definition.”
The Joint FTC/Justice Dept. Merger Guidelines (updated)
Lecture Notes “Market Definition: Apples and Oranges” posted on uLearn.
Ch. 19; Re-read pp. 642-644.
“Market Power in Antitrust Cases,” Landes and Posner, Harvard Law Review, (excerpts), March 1981. (This is a classic article that serves as a foundation for much of the debate on this topic)
“Critical Loss Analysis in Evaluating Mergers,” James Langenfeld and Wenqing Li, The Antitrust Bulletin, Summer 2001 (this paper has unique coverage)
Ch. 8, “Industry Structure and Performance”
KW Case 7 (Staples and Office Depot)

02/02: More Case Discussion exhibiting efficiencies defenses, market definition, and coordinated vs. unilateral effect theories of antitrust injury (anticompetitive effects); Further Discussion of Entry Barriers; Lags vs. Barriers, Potential Competition; Cost Defenses in Merger Policy

KW Case 2 (Oracle and PeopleSoft)
Ch. 2 “The Firm and Costs”
“The Economics of Entry Lags,” Hilke and Nelson, Antitrust Law Journal, Vol. 61, #3, 1993; while this paper uniquely covers this distinction, a more recent paper may be substituted.
2/09: More Cases exhibiting key economic principles; coordinated effects; The Contestability Debate: “Ultra-Free Entry” and its Critics
(The classic literature in the debate)

KW Case 3 (Arch Coal)
KW Case 5 (Cruise Lines)
Multiple articles from *AER* debate on contestability from the issue of June 1983.
“Uncertain Contestability,” Robert Cairns, *Journal of Economic Behavior and Organization*, July 1996 (May be dropped if we are pressed for time)
Ch. 20, pp. 702-705 on the topic of “sustainability” (see Figure 20.4)

2/16: Monopoly Behavior: Dominant Firm Strategies/Intro to Predation; Key Predation Cases

Ch. 11, “Strategic Behavior” (Skip Appendix until later)
Zenith v. Matsushita case (1986, from earlier edition of KW, posted on uLearn)
KW Case 8 (Spirit Airlines vs. Northwest Airlines)
KW Case 10 (LePage v. 3M)

(Note that the Midterm is tentatively scheduled for next week, distributed on Wednesday February 22, and due at the beginning of class February 23; the grades will be posted on uLearn over the weekend 02/25-02/26, but if you have any concerns about the exam, I can provide some feedback, if requested, by 2 PM, 02/24; alternatively, some of you might want to receive the exam Friday or Saturday based on your work schedules; I am generally flexible about your schedules).

02/23: Midterm Exam due; Collusion and Cartels; Initial Case examples [It is unlikely, given the exam deadline, that you will be able to read all of this material prior to class this week, but my class discussion will highlight what to look for when you catch up on this reading, and the reading should make a lot of sense in the context of our class discussion]

Ch. 5, “Cartels”
KW Case 12: Bid-rigging and School Milk Prices
A possible alternative policy framework: “Posner handout” posted on uLearn
03/01: No Class; Spring Break

3/08: Optimal Collusion Policy continued; Is there a way to confront “tacit collusion?” Is there an economic case for collusion? Assessing antitrust “damages”

KW Case 11 (Lysine case)
“MIT and Financial Aid” (case from previous KW edition; posted on uLearn)
“Welfare and Collusion,” PLUS 6 short comments plus Dewey’s reply, pp. 256-281, *AER*, March 1982 (This is another classic debate with papers that are as worthy of discussion now as they were when published).

3/15: Mergers: Round 2; Intro to Vertical Integration and Vertical Restrictions; Exclusive strategies; Tying contracts and possible links to price discrimination strategies

Ch. 12, “Vertical Integration and Vertical Restrictions”
Ch. 10, “Advanced Topics in Pricing”
Ch. 11, Appendix 11A, “The Strategic Use of Tie-In Sales and Product Compatibility...”
Ch. 19, review pp. 661-674
Lecture Notes posted on uLearn
Ch. 9, “Price Discrimination”

03/22: Tying in action; Vertical vs. Horizontal price fixing; Case discussion of exclusive dealing; unique legal issues

KW Case 13 (Trident v. Independent Ink)
KW Case 17: (State Oil v Kahn)
KW Case 14 (US vs. Dentsply)
KW Case 16: (Toys-R-Us)

03/29: Network Economics; The Kodak Case and Post-Chicago Analysis; More on Schools of Thought

Additional journal literature on network effects to be posted
KW Case 21 (Kodak)
Possible journal article on the Kodak controversy posted on uLearn

4/05: More on Network Externalities; Regulation and Antitrust interaction; extent of
obligations to “aid competitors” in regulatory settings; catch-up on schedule

KW Case 18 (Trinko)
KW Case 19 (Visa and Master Card)

4/12: The Microsoft Controversy; intro to the issues and the economic analysis of the debate; implications for future antitrust enforcement in the digital age. This discussion will be updated to include material on the more recent investigations of Google.

Appendix 11A; review pp. 373-376
KW Case 20 (The Microsoft Case)

4/19: Final Assessment; Additional review for final exam. Updated discussion of most recent antitrust cases in the news.

Symposium on Activist Antitrust: Success or Failure: 2 Papers from the Journal of Economic Perspectives, Fall 2003 (Vo. 17): pp. 3-50 Additional updated reading on antitrust in an era of rapidly changing technology, and the challenges of coordination between the EU (and other regions) and the USA, to be posted for the class discussion

The final exam will be scheduled in consultation with the class, and again distributed 24 hours prior to it being due.