

Economics 4470: CRN: #84013
Industrial Organization, Regulation and Antitrust Economics
Fall 2017
Dr. Bruce A. Seaman

Time and Location: MW: 3:00-4:15 P.M. Location: Classroom South #101

Administrative: Office: #815; 55 Park Place; 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. However, after class is always a good time to meet.

Catalog Description: This course deals with 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*, 6th Edition, Oxford Press, 2014.

i College: You should already be enrolled via iCollege (iC) 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. If you are registered, and have paid your tuition and fees, and do not yet appear on iC for this course, please send me an email message with your iC identification info.

Exams and Academic Honesty: 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 or related assignment that can be used to improve your lowest exam grade prior to the final exam. 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 disciplined under this policy two years ago. Any violation of the Georgia State University Policy on academic honesty (Section 409 of the student handbook) will result in severe penalties. Any cheating on exams or plagiarism is strictly forbidden.

Grading Policy: This course utilizes the +/- system (including the 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.

Make-up Exams: The general policy is not to allow make-up exams. However, in the event that the student has a legitimate advance conflict with the indicated exam date and expressly makes alternative arrangements with the instructor, this may be allowed. Last minute requests can only

be granted with full documentation of any genuine emergency (you'd better be literally approaching your demise to even contemplate calling me the morning of the exam).

Disability Options: Students who wish to request accommodations for a disability may do so by registering with the Office of Disability Services. Students may only be accommodated upon issuance by the Office of Disability Services of a signed Accommodation Plan and are responsible for providing a copy of that plan to instructors of all classes in which an accommodation is sought.

Course Evaluation: Your constructive evaluation of this course plays an indispensable role in shaping education at Georgia State. Upon completing the course, please take time to fill out the on-line course evaluation.

Course Schedule and Assignments: Note that October 10 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. Lecture note supplements will often be posted on iC. **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 iC by Friday of the previous week.**

Date: Topics and Relevant Reading: (S and KW refer to the texts; NOTE: Additional short supplemental reading may be posted on iC based on topical issues that arise throughout the semester, or that further clarify or illustrate current policy issues and debates).

08/21: Introduction and initial overview of the role of economics in policy debates; three reasons why people disagree and potential role of economics in addressing disagreement; administrative details

 "Intro lecture" notes BAS: see iC

 S: Ch. 8, pp. 258-263; S: Appendix 8.2, p. 295; S: Ch. 9, pp. 296-297 (antitrust basics)

 S: Ch. 12, pp. 411-416 (regulation basics)

08/23: Overview continued, and further review of nine essential economic concepts that distinguish an economic analysis from other types of analysis, i.e. “what makes an economist?” Examples include clarifying the concept of “externalities;” the important distinction between setting regulatory standards and methods of enforcement (not just “to regulate or not regulate,” but “how to regulate”); Saleable pollution rights as an example.

BAS lecture notes identifying the key concepts (iC)

S: Ch. 3, Section 3.4 pp. 87 to 89 (Fig. 3.6)

S: Ch. 20, Section 20.3; pp. 685 to 693.

S: Ch. 19, pp. 656-659 (Figure 19.2).

S: Ch. 1, pp. 3-12

08/28: Continue and complete the discussion of the nine key economic concepts from 08/23; The Coase theorem and examples.

Finish the reading from 08/24

S: Section 19.1, pp. 651-656.

BAS lecture notes on the Coase Theorem (iC)

08/30: The context of antitrust policy; more on the history of antitrust enforcement; the “schools of thought” in industrial organization; Measures of concentration and their significance; Structure, conduct and performance; the standard welfare concepts applied to monopoly; how to incorporate cost-efficiencies (the Williamson trade-off). What does it mean to “let it all up to the market?” A review of key “welfare principles.”

S: Ch. 2: Section 2.2, p. 47-61

S: Ch. 8, pp. 263-278 (important historical perspectives)

KW: Introduction pp. 1-6

KW, Part I: “Horizontal Structure: The Economic and Legal Context,” pp. 8-13; pp. 19-26

S: Ch. 5, Sections 5.4 and 5.5, pp. 162-176

09/04: No class: Labor Day Holiday

09/06: Finish discussion from 08/30; the debate about the social costs of monopoly; the Harberger measure of the welfare loss from monopoly; key issues; Cost inefficiency (“X-inefficiency”) and “rent-seeking.”

Finish reading from above

S: Chapter 3 to section 3.4 on p. 87

09/11: 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, Section 4.5 only S:

Ch. 8, pp. 283-288.

KW: Economic and Legal Context; pp. 13-29

S. Ch. 9, pp. 297-303 (note that the HHI figures in Table 9.1 were changed in 2010 and are now the somewhat more “lenient” ones reported in KW, p. 20.

Lecture notes on market definition: BAS (“Apples and Oranges”); see iC

09/13: Determinants of relevant economic markets continued; horizontal mergers and potential antitrust implications; Case analysis and discussion: Ticketmaster and Live Nation

Lecture notes on market definition finished: “Apples and Oranges”; see iC

KW: Case 2: *Ticketmaster –Live Nation* (2010)

09/18: More merger case discussions: Telecommunications; efficiency defenses; job creation, dynamic changes in audio entertainment

KW: Case 1: *ATT and T-Mobile* (2011)

KW: Case 3: *Sirius-XM Radio Merger* (2008)

09/20: An example of a change in markets and the evaluation of an industry: The “Office Super-Store” mergers: then (the role of data analysis) and now (the impact of ongoing structural/technical change).

KW: Case 6: *Staples-Office Depot* (1997)

“Office Depot: Office Max is about Survival,” Hadley Malcolm, USA Today, February 20, 2013; see iC

“Office Depot: Office Max: FTC Statement; iC

Niskanen, William, “Antitrust and the Staples/Office Depot Merger,” Commentary, Cato Institute, 1997

Questions to Guide your Reading of this Case; BAS, see iC

09/25: Classic oligopoly models and implications for merger analysis; special issues in hospital mergers and competitive interactions.

S: Ch. 5 (all but the previously read sections 5.4 and 5.5); appendices optional
KW: Case 4: *FTC v. Evanston Northwestern Healthcare* (2007)

- 09/27: Catch-up; Sample exams; preparation for Exam I

Solve exam questions in class; see iC
- 10/02: Midterm Exam I
- 10/04: Return and discuss Midterm Exam
- 10/09: Non-cooperative and cooperative strategies and antitrust implications; price fixing background and analysis; the pros and cons of the *per se* rule

S: Ch. 6; to page 197 only (stop at Multi-product pricing)
S: Ch. 9, section 9.2, pp. 309-320 (stop at “Vertical Restraints of Trade”).
KW: Part II: “The Economic and Legal Context: Cartels, Collusion and Cooperation, pp.197-203.
Richard Posner Handout posted on iC
- 10/11: Price fixing cases; the analysis of antitrust damages linked to collusion

KW: Case 8: The DRAM antitrust litigation (2008)
KW: Case11: Lysine litigation (1996)
- 10/16: Should all collusion be *per se* illegal? Potential social benefits of collusion in specific contexts; The MIT/Overlap case

KW: MIT Financial Aid case posted as pdf file on iC (1993)
- 10/18: Predation strategies and monopolization; theory and initial important predation case

KW: Conclude Economic and Legal Context (“Predation and Exclusion”), pp. 203-210
S: Ch. 9, pp. 305-307 (Predatory Pricing)
KW: *Matsushita v. Zenith et al* (1986); posted on iC
- 10/23: More predatory pricing cases; the policy challenge; begin vertical issues

KW: Case 10: *Spirit Airlines v. Northwest Airlines* (2005)
KW: Part III, “The Economic and Legal Context,” pp. 352-364.

- 10/25: Exclusionary contracts; essential facilities; vertical restraints

S: Ch. 9, pp. 307-309; and pp. 320-325.
Possible discussion of some aspects of the Apple e-book case; iC reading
- 10/30: Key vertical cases; exclusive dealing; tying; vertical restraints

KW: Case 15: *Trident v. Independent Ink* (2006)
KW: Case 16: *U.S. v. Dentsply* (2005)
- 11/01: Network Economics; Microsoft highlights; dynamic industries and antitrust

KW: Part IV, “The Economic and Legal Context,” pp. 520-532
S: Ch. 10, pp. 337-341
KW Case 20: *U.S. v. Microsoft* (2001).
S: Ch. 8; section 8.5, pp. 278-283.
S: Ch. 9, pp. 326-333.
- 11/06: EXAM II
- 11/08: Return and discuss Exam II
- 11/13: More extensive analysis of direct regulatory policy; theories of regulation; important distinctions among types of externalities; other market failures

S: Ch. 3; Sections 3.4; 3.5 and 3.6
S: Ch. 19, pp. 649-663 (stop at Section 19.3)
Article about Trump administration approach to regulation; to be determined
S: Ch. 10, pp. 337-347; also, section 10.3
- 11/15: More on networks: credit cards and airlines. Transportation regulation; ground and airline transport regulation

S: Ch. 16 (specific pages to be clarified)
KW: Case 18: *Delta-Northwest* merger (2008)
KW: Case 19: *U.S. v. Visa and MasterCard* (2003)
- 11/20 and 11/22: No classes; Thanksgiving Holiday

- 11/27: Financial market regulatory issues
- S: Ch. 24
 S: Ch. 19, Section 19.4, pp. 666-671
 Supplemental reading linked to 2009 financial reform legislation; iC
 Supplemental reading regarding the debate on restoring the Glass-Steagall Act and bank reform; iC
 The conservative case for breaking up the banks: James Pethokoukis, “Too Big for Comfort: Why we Need to Break up the Banks,” *The Weekly Standard*, June 4, 2012; iC
- 11/29: Intro to “Social Regulation:” health, safety and the environment; How do we “value a life?” More on creating and trading property rights; the Coase theorem
- Supplemental lecture notes on Social Regulation economic principles; iC
 S: Ch. 20
- 12/04: How can we apply “cost-benefit” analysis to issues of life and death, continued? Workplace safety applications; product safety issues
- S. Ch. 19, Section 19.3 only
 S: Ch. 22
 S: Ch. 23; possible supplemental reading related to recent food safety regulation
- Final Exam: Monday, December 11; 1:30-4:00 P.M. NOTE the time difference from regular class. Non-comprehensive exam based only on topics since the second exam; same basic format as the other exams, but 2.50 hours rather than 1.25 hours.