

Economics 8440/Fall 2014 (CRN: 85535)
Bruce A. Seaman, Ph.D.
Industrial Organization and Antitrust Economics

(Some of the supplemental reading is subject to substitution of the latest academic research and journal articles if deemed to provide more accurate information and to reflect new learning that is not otherwise included in the articles identified below. As noted below, some older articles are essential reading and will not be replaced. D2L, Desire to Learn, will always provide the latest updates on required reading and the updated week by week agenda, as well as essential attachments).

ADMINISTRATIVE INFO: Office: Room 135 AYSPS Building (14 Marietta Street); Phone: 404-413-0157; Fax: 404-413-0145; E-mail: bseaman@gsu.edu. Office hours: By appointment or after class. It is best to initially call, or contact me via email regarding office visits.

TIME AND LOCATION: 7:15-9:45 P.M., Wednesdays only. Kell Hall #101 (might be changed to a more comfortable room in Aderhold Learning Center, if possible). Any such change will be announced at the first class, which will be held in Kell 101.

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:

Carlton, Dennis W. and Jeffrey M. Perloff, *Modern Industrial Organization*, Fourth edition, Pearson: Addison-Wesley, 2005.

John E. Kwoka, Jr. and Lawrence J. White, eds., *The Antitrust Revolution: Economics, Competition and Policy*, 6th edition, Oxford Press, 2014

Additional readings might 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 Desire2Learn (D2L)

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 (On line version available, and will sometimes be referenced)

Industrial Organization: Contemporary Theory and Practice, Pepall, Richards and Norman, Southwestern, 2nd Edition, 2011

The Organization of Industry, William Shughart II, Irwin, 1990.

Handbook of Industrial Organization, Vol. 3, edited by Mark Armstrong and Robert H. Porter, North-Holland, 2007.

Antitrust Economics, Roger Blair and David Kaserman, 2nd Edition, Oxford University Press, 2009.

Industrial Organization in Context, Stephen Martin, Oxford University Press, 2010.

Monopsony in Law and Economics, Roger D. Blair and Jeffrey L. Harrison, Cambridge University Press, 2010.

Economics of Regulation and Antitrust, Viscusi et al. 4th Edition, MIT Press, 2005.

Antitrust Law 2nd Edition, Richard A. Posner, University of Chicago Press, 2001.

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 essentially 40% of the final grade (the higher of these two grades is weighted somewhat more heavily). 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 assignments. There is also an optional supplemental case (s) analysis assignment designed to improve the midterm grade (although

there is no guarantee of such an improvement; in no case can the midterm grade be reduced by completing this optional assignment). Depending on the size of the class (recent classes have been somewhat too large for this), specific students will be assigned to be discussion leaders or teamed to argue the relative merits of specific cases, and other efforts will be made to stimulate class discussion. Also, sample exams are available on D2L, along with announcements and possible supplemental lecture material and other attachments. Please check D2L 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 but not limited to 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.

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: Text chapters refer to Carlton and Perloff, and are merely designated by Ch. 1 etc. The cases refer to Kwoka/White (KW). October 14 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.

Date Topics and Required Reading

Note that more material on current or very recent antitrust cases; e.g., the American Airlines/U.S Airways merger challenge, various Google and Amazon investigations, and also very recent academic papers, to the extent that they contribute or notably extend the analysis beyond the papers (some of them “classics”) already include in this syllabus may be announced and posted on D2L throughout the semester. However, the amount of reading and topic coverage is already very extensive, so any such further supplemental material will be kept to a minimum, or will substitute for papers identified below.

08/27: Introduction, divergent approaches to IO and antitrust; Background to the Antitrust laws and institutional Information

Ch. 1, “Overview”

Ch. 19, pp. 631-642; intro principles and institutional information

KW, Preface and Introduction

Ch. 8 to page 247; pp. 254-267; and Appendix 8A

09/03: Welfare economics; the debate about monopoly and its effects; Oligopoly; X-inefficiency and rent seeking (“classic” papers on these important topics); the William trade-off analysis

Ch.3, “Competition” (this should be a review of basic concepts)

Ch. 4, “Monopolies, Monopsonies and Dominant Firms” (note that pp. 110-119 will be covered in more detail as part of a discussion of the “expanded Lerner index” linked to the famous Landes and Posner analysis of market power (see reading for 09/11))

Excerpts from Richard Posner, *Antitrust Economics*, 2nd Edition, Ch. 2, “The Costs of Monopoly,” Univ. of Chicago Press, 2001

George Stigler, “The Xistence of X-Efficiency,” *AER* 66 (March, 1976)

Harvey Leibenstein, “X-Inefficiency Xists - Reply to an Xorcist,” *AER* 68 (March 1978).

Roger Frantz, “X-Efficiency and Allocative Efficiency: What Have We Learned?” 82 (May, 1992).

KW: “Horizontal Structure: The Economic and Legal Context,” pp. 8-29 (pay special attention to the discussions surrounding Figures 1-1 and 1-3

Excerpts from Viscusi et al (2005) re: theory and empirical magnitudes of the

Williamson cost savings/market power tradeoff (see D2L)

09/10: Conclude welfare debate; Market definition analysis (the SSNIP test); Clarification of the relationship between market power and market definition; Problem on market definition for discussion; Initial merger 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). Just use as a reference although we will discuss selected sections.

Lecture Notes “Market Definition: Apples and Oranges” posted on D2L

Survey of Market Definition Approaches from Kaserman and Mayo, *Government and Business: The Economics of Regulation and Antitrust*, Dryden, 1995; the key here is the Appendix 4A derivation of the expanded Lerner index.

Ch. 19; pp. 642-648; pp. 657-661

“Market Power in Antitrust Cases,” Landes and Posner, *Harvard Law Review*, 94(2), March 1981. (Focus on reading to page 963; the analysis surrounding Table 1 is especially important). This is a classic paper cited relentlessly.

Ch. 4; re-read pp. 110-119.

Philip Nelson (Economists Incorporated), “Monopoly Power, Market Definition and the *Cellophane* Fallacy,” Slide presentation to be posted on D2L

Homework problem on Market Definition posted (to be discussed next week)

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

09/17: Critical loss analysis evaluated; conceptual background and case discussion exhibiting efficiencies defenses, market definition, and coordinated vs. unilateral effect theories of antitrust injury (anticompetitive effects).

Discuss your evaluation of the “economics tutoring” homework problem (not required to hand anything in for grading; just to facilitate class discussion)

“Critical Loss Analysis in Evaluating Mergers,” James Langenfeld and Wenqing, *The Antitrust Bulletin*, Summer 2001 (key concepts and a good discussion of important hospital issues useful to KW Case 4)

KW Case 4: *FTC v. Evanston Northwestern Healthcare* (2007)

Further discussion of Elzinga-Hogarty shipments analysis; graph D2L; (see also Schugart discussion of this topic in “Market Definition”)

CP Ch. 6: “Oligopoly;” this is worthy reviewing, especially to page 180 to refresh your understanding of the classic oligopoly models, which appear often in antitrust case analysis; see also my lecture notes regarding a basic arithmetical/algebraic example of those models (D2L)

09/24: Further discussion of entry barriers; entry lags vs. barriers, potential competition; cost defenses.

“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

“Scale Economies and Synergies in Horizontal Merger Analysis,” Joseph Farrell and Carl Shapiro, *Antitrust Law Journal*, Vol. 68, Issue 3, 2001, pp. 685-710
KW Case *EchoStar and Direct TV* (2002); to be provided via D2L for its excellent application of key economic theory concepts. The focus is on pp. 124-129, coordinated and unilateral effects, and Nash-Cournot competition
KW Case 1, *AT&T and T-Mobile* (2011)

10/1: 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 6: *Staples and Office Depot* (1997); note that the discussion on pp. 177-178 briefly introduces key ideas regarding contestable markets; read the Appendix regarding the UPP test (“upward-pricing pressure test”)
“Contestable Markets: An Uprising in the Theory of Industry Structure,” William J. Baumol, *AER*, March 1982; pp. 486-496
Multiple articles from *AER* debate on contestability from the issue of June 1983; to be posted on D2L
“Contestability vs. Competition-Once More,” William G. Shepherd, *Land Economics*, 71(3), August 1995
“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)

10/08: Monopoly behavior: Dominant firm strategies/predation; Raising rivals costs; Extensive-form game theory examples; Key predation cases

Ch. 11, “Non-cooperative Strategic Behavior” to page 379; supplemental lecture notes will be posted on D2L regarding the extensive form game theory investment example pp. 368-371

KW, “Horizontal Practices: The Economic and Legal Context,” pp. 203-210, “Predation and Exclusion”

Ch. 19, pp. 662-668, “Competition between Rivals” (stop at “Vertical Arrangements between Firms”)

Zenith v. Matsushita case (1986, from earlier editions of KW, posted on D2L)

KW Case 10 *Spirit Airlines vs. Northwest Airlines* (2005); selected pages from the prior American Airlines predation case will be posted on D2L to clarify key concepts

KW Case 9, monopsony and predation, *The Weyerhaeuser Cases* (2007)

10/15: Collusion and Cartels; Case examples; Antitrust damages

KW: “The Economic and Legal Context,” pp. 196-203; “Cartels, Collusion and

Cooperation”

Ch. 19, “Cooperation among Competitors/Oligopoly Behavior,” pp. 648-657

Ch. 5, “Cartels”

Ch. 8, “Modern Approaches to Measuring Performance,” pp. 274-282; also

Appendix 8B (“Identifying Market Power”)

CV. 19, “Who May Sue,” and “Economic Theory of Damages,” pp. 637-642

KW Case 8: The DRAM litigation (2008)

A possible alternative policy framework: “Posner handout” posted on D2L

KW Case 11, The *Lysine* global cartel litigation (1996)

(Note that the Midterm is tentatively scheduled for this week, distributed starting as early as Thursday October 10, and due 24 hours later (but there are always several delivery times arranged with each of you in as flexible a way as possible).

10/22: Catch-up on agenda; Optimal collusion policy continued; Is there a way to confront “tacit collusion?” Is there an economic case for collusion?

“MIT and Financial Aid” (case from previous KW edition; posted on D2L);

possibly some supplemental reading on this controversial case

Donald Dewey, “Information, Entry, and Welfare: The Case for Collusion,” *AER*, 69(4), Sept. 1979

Six short comments on Dewey’s argument 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).

10/29: Intro to vertical integration and vertical restrictions; Exclusive strategies; Tying contracts and possible links to price discrimination strategies

KW: Vertical and Related Market Issues, “The Economic and Legal Context,” pp. 370-380

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, pp. 668-674, “Vertical Arrangements between Firms;” also pp. 677-680

Lecture Notes on tying contracts posted on D2L

Ch. 9, “Price Discrimination”

Ch. 19, pp. 674-677, Price discrimination and tie-in sales

11/05: Tying in action; Case discussions of exclusive dealing; vertical foreclosures; other exclusionary conduct; unique legal issues

KW Case 15: *Trident v. Independent Ink* (2006)

KW Case 16: *U.S. vs. Dentsply* (2005)

KW Case 12: *Google-ITA* (2011)

KW Case 13: *Intel* and blocking practices (2010)

11/12: Network economics; Airline mergers revisited; Credit card networks

“Systems Competition and Network Effects,” Michael Katz and Carl Shapiro,
Journal of Economic Perspectives, Vol. 8, No. 2, Spring 1994

Additional journal literature on network effects to be posted

KW: Network Issues: “The Economic and Legal Context,” pp. 520-533

KW: Case 18: *Delta-Northwest* merger (2008)

KW: Case 19: *U.S. vs. Visa and MasterCard* (2003)

11/19: The Microsoft Controversy; intro to the issues and the economic analysis of the debate; implications for future antitrust enforcement in the digital age.

Appendix 11A; review pp. 373-376

Ch. 11, re-read Example 11.5, page 374

KW Case 20: *U.S. v. Microsoft* (2001)

Symposia on the Microsoft Case: 3 papers in *Journal of Economic Perspectives*,
Vol. 15(2), Spring 2001: pp. 25-80.

Possible excerpts from recent books on the Microsoft Litigation and/or ongoing European Community actions regarding Microsoft.

11/26: No class; Thanksgiving holiday week

12/03: Catch-up on unfinished topics and discussions; Final assessment; Additional review for final exam. Updated discussion of most recent antitrust cases

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. Therefore, there is nothing especially critical about the stated date in the university posted final exam schedule. Final grades are due December 18, although I expect all grades to be finalized by December 16.

