

Министерство образования
и науки Российской Федерации



**Уральский
федеральный
университет**

имени первого Президента
России Б.Н.Ельцина

Elena V. Tissen

Industrial Economics

The program of the course

Electronic text publication

**Yekaterinburg
2017**

Name of the Course: Industrial Economics

The program of the course

Number of credits: 3 ECTS

Course period: 1 semester / 2 classes (2 lecture) per week in the first half of the semester, 2 class (2 seminar) in the second half of the semester

Language of Instruction: English

Instructor: Elena V. Tissen, Candidate of Economic Sciences, Associate Professor at the Department of economic theory and economic policy

Name of the Institute: Graduate School of Economics and Management

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Course description:

This course surveys major topics and theories in the field of Industrial Economics or Industrial Organization (IO). IO studies the structure and behavior of firms and their strategic interactions with one another in the marketplace, also studies the impact that those interactions have on market structure and welfare. This course will emphasize market structure analysis and the strategic behaviors of competing firms, including (but not limited to) product differentiation, collusion, price discrimination, pricing strategy, non-price discrimination (i.e. advertising), vertical integration, and vertical restraints.

The course consists of two major parts. The first part of the course constitutes a methodological and theoretical introduction into the methods and approaches used all over the course, the problems of assessing the impact of market power on social welfare, definition of market boundaries, measurement of market structures. The second part constitutes the core of the course, and covers imperfect competition in static and dynamic settings, theoretical and empirical studies of entry and accommodation, product

differentiation, monopolistic behavior, vertical integration and determinants of market structure.

The knowledge that the student will derive from the course is useful for further study of firms and markets as well as the effects of regulatory and legal systems (such as antitrust law or competitive policies) upon firms; and how firms operate under regulatory and legal regimes. The knowledge is also useful in further study of the internal operation of firms. All these topics are covered in the field of IO. Topics covered in this field are useful not only for academic consideration, but also in private enterprises, including financial and legal institutions; in Federal and state regulatory agencies; and in international trade.

This course requires you to have completed the Microeconomics course. You should also have a basic understanding of game theory prior to enrolling in this course.

Prerequisites:

Intermediate microeconomics

References:

Required literature:

1. Church J., Ware R. Industrial Organization: Strategic Approach. – McGraw, 2000.
2. Cabral L. Introduction to Industrial Organization. MIT. 2000

Additional readings

1. Donald A. Hay, Derek J. Morris. Industrial Economics and Organization: Theory and Evidence Hardcover . Oxford University Press; Revised edition edition (11 July 1991)
2. Besanko D., D. Dranove, M. Shanley, S. Schaefer. Economics of Strategy. 4th ed. John Wiley & Sons. 2007.
3. Tirole J. The Theory of Industrial Organization. MIT Press, 1994 (1988)

4. Porter M. The Five Competitive Forces that Shape Strategy. Harvard Business Review, January 2008.

5. Dzhukh, V. M. Industrial Economics : manual for students of higher education institutions / V. M. Dzhukh, A. V. Kuritsyn, I. S. Shtapova. — 3rd prod., I have erased. — M.: KNORUS, 2014. — 284

6. Rozanova, N. M. Industrial Economics : manual for bachelors: [for students of higher education institutions on economic specialties] / N. M. Rozanova; Vyssh. school of economy, National research un-t. — M.: Юрайт, 2013. — 906 pages]

7. Avdasheva S. B., Rozanov N. M. Theory of Industrial organization. - M.: Master publishing house, 1998.

8. Бypoc A., Rozanova N. Industrial Economics . – M.: Economics department of MSU, TEIS, 2000.

9. Roy L. V., Tretiak V. P. Analysis of Industrial Organization: textbook. – M.: Infra-M, 2008.

10. Scherer, F.M., and D. Ross, “Industrial Market Structure and Economic Performance”,. Boston: Houghton Mifflin, 1990 (third edition). (Good particularly for a survey of empirical material and institutional detail)

11. N. V. Pakhomova, K. K. Richter. Economy of the branch markets and the government’s policy. – M.: CJSC Ekonomika Publishing House, 2009.

12. I. V. Knyazeva. The Antitrust policy in Russia: manual for students. Omega-L publishing house, 2008.

13. Shy Oz. Industrial organization: theory and applications. MIT Press, 2001 (1995)

Other Resources (Journals):

Notes: Specific article and reading materials are suggested during the course

1. A.P. Lerner The Concept of Monopoly and the Measurement of Monopoly Power. Review of Economic Studies, 1934, vol. 1, issue 3, pages 157-175

2. Schmalensee R. Advertising and market structure. MIT, 1982

3. Schmalensee R. Entry deterrence in the ready-to-eat breakfast cereal industry. Bell Journal of Economics, Spring 1978, 9: 305-27

4. William J. Baumol. Contestable Markets: An Uprising in the Theory of Industry Structure. *The American Economic Review*, 1982. Vol. 72, N 1, pp.1-15.
5. Avinash Dixit. The Role of Investment in Entry-Deterrence. *The Economic Journal*, Vol. 90, NO. 357. (Mar., 1980), pp. 95-106.
6. Michael Spence. Entry, capacity, investment and oligopolistic pricing. *The Bell Journal of Economics* Vol. 8, No. 2 (Autumn, 1977), pp. 534-544
7. Areeda P., Turner D. Predatory pricing and related practices under Section 2 of the Sherman Act // *Harvard Law Review*. 1975. Vol. 88. P. 697-733.
8. John S. McGee. Predatory Price Cutting: The Standard Oil (N. J.) Case. *Journal of Law and Economics*, Vol. 1. (Oct., 1958), pp. 137-169.
9. David Kreps and Robert Wilson; Reputation and imperfect information. *JOURNAL OF ECONOMIC THEORY* 27, 253-279 (1982)
10. Lester G Telser. Why Should Manufacturers Want Fair Trade? *Journal of Law and Economics*, 1990, vol. 33, issue 2, pages 409-17.
11. Howard P. Marvel, "Exclusive Dealing," 25 *Journal of Law and Economics* 1 (1982).
12. Mathewson, G. Frank, Ralph A. Winter. "An Economic Theory of Vertical Restraints." Centre for the Economic Analysis of Property Rights. *Economics and Law Workshop Papers*, 82-19. London, ON: Department of Economics, University of Western Ontario (1982).
13. Oliver E. Williamson. Economies as an Antitrust Defense: The Welfare Tradeoffs. Author(s): Source: *The American Economic Review*, Vol. 58, No. 1 (Mar., 1968)
14. Armen Alchian and Harold Demsetz; Production, Information Costs, and Economic Organization. ... Harold Demsetz · *American Economic Review*, 1972, vol. 62, issue 5, 777-95
15. Oi Y. W. A Disneyland Dilemma: Two-Part Tariffs for a Mickey Mouse Monopoly. *Quarterly Journal of Economics*, Vol. 85, Issue 1 (Feb., 1971), 77-96.
16. DiLorenzo T. J. The Myth of Natural Monopoly. *The Review of Austrian Economics*, Vol. 9, (1996):43-58.

17. Leibenstein H. Allocative efficiency vs. "X-efficiency." Amer. Econ. Rev. 56:392-415, 1966.

Unit Aims:

Upon successful completion of this course, the students are to acquire the following learning outcomes:

1) Knowledge and Understanding:

- patterns of the functioning of modern models of industrial markets;
- basic concepts, categories and tools of the theory of IO;
- the basics of building, calculation and analysis of the modern system of indicators to measure industrial concentration and market power;
- modern methods of collecting, processing and analyzing economic and social data in the field of study of industrial structures;
- methods for determining the market boundaries.

2) Intellectual Skills: Information Management:

- to analyze the models of the industry markets, the behavior and results of the firm's activities in different market structures;
- to identify economic problems in the analysis of specific situations, suggest ways to address them, taking into account the criteria of socio-economic efficiency, risk assessment and possible socio-economic consequences;
- to evaluate market concentration indicators on the basis of standard methods;
- to interpret the behavior of economic agents, the development of economic processes and phenomena on the basis of standard theoretical and econometric models.

3) Practical Skills: Inter/Multicultural Competency:

- to apply the methodology of economic researches;
- to operate the methods and techniques of analyzing economic phenomena and processes using theoretical and econometric models;
- to operate the modern methods of calculation and analysis of socio-economic indicators characterizing the processes of functioning of industrial markets.

- To demonstrate the ability to collect, analyze and process data necessary for solving professional tasks.

4) Transferable Skills: Multicultural Communication:

- ability to collect, analyze and process the data necessary to solve professional problems;
- ability to select tools for processing economic data in accordance with the task, analyze the results of calculations and justify the findings;
- to communicate in the group about the project work.

Course Outline

№	Lectures	Class hours
1.	Introduction. Course overview	1
2.	<p>The Welfare Economics of Market Power.</p> <ol style="list-style-type: none"> 1. Traditional microeconomic approach to assessing the public loss from the monopolization of the industry. 2. Expansion of the traditional concept of public loss of social welfare from monopolization of the industry. 3. Firm`s domination in the market. The problems of assessing the influence of market power on public welfare. 4. State regulation of monopolies as the cause of social losses. 5. The Model of contestable markets. Conditions for the existence of the contestable markets. Limitations of the model. 	2
3.	<p>Market delineation. Measuring of market structures.</p> <ol style="list-style-type: none"> 1. Types of market boundaries. Approaches to determining the product market boundaries. 2. Measurement of market structures. Indicators of industry concentration. The relationship between concentration and market power. 	2

	3. Indicators of market power. Factors of market power.	
4.	<p>Entry barriers.</p> <p>1. Concepts of industrial barriers, their significance and characteristics.</p> <p>2. Exogenous (Non-strategic) barriers.</p> <p>3. Empirical research of industry barriers.</p>	1
5.	<p>Strategic Behavior. Entry Deterrence. Predation.</p> <p>1. The Principles of Strategic Behavior.</p> <p>2. Options for the strategic behavior of incumbent firms and entrant firms.</p> <p>3. Predation: types of predatory behavior of firms.</p> <p>Impact of predation on public welfare.</p>	3
6.	<p>Product differentiation.</p> <p>1. Introduction. Product differentiation: characteristics and consequences for the firm and the consumer.</p> <p>2. Measuring product differentiation.</p> <p>3. Horizontal and vertical product differentiation.</p> <p>4. Models of spatial differentiation of a product.</p> <p>5. The Model of vertical product differentiation.</p> <p>6. Advertising and Market Power.</p>	3
7.	<p>Information asymmetry.</p> <p>1. Introduction.</p> <p>2. Quality and information.</p> <p>3. Price dispersion and search theory.</p>	2
8.	<p>Price discrimination.</p> <p>1. Introduction.</p> <p>2. Linear Pricing & Nonlinear Pricing.</p> <p>3. Forms Of Consumer Sorting.</p>	2
9.	Vertical integration and vertical restraints.	2

	1. Introduction. 2. Vertical integration to Avoid Double Marginalization. 3. Vertical Price Restraints. 4. Non price Vertical Restraints. 5. Public Policy.	
	Total	18

№	Seminars	Class hours
1.	The welfare economics of market power.	2
2.	Definition of market boundaries. Measurement of concentration and market power.	2
3.	Industry barriers. Strategic behavior of firms. Predation.	4
4.	Product differentiation.	4
5.	Information asymmetry.	2
6.	Price discrimination.	2
7.	Vertical integration and vertical restraints.	2
	Total	18

ASSESSMENT METHODS AND CRITERIA

LECTURES and reading materials. Participating in the lectures and reading the assigned papers is the most essential part of the course. All enrolled students are therefore expected to participate in all lectures and read all assigned papers.

SEMINARS (AT)

Seminars will involve a blend of different experiences including problem solving exercises, case studies, a team project and an individual assignment. Discussion of the stages of the implementation of the Research project takes 10% of the time of practical training.

Active Attendance: solving problems and case analysis count as 9% of the final grade.

ASSIGNMENTS

1) 3 tasks (tests) in the field of material of articles. These tests are to be answered in the beginning of the classes and count as 16% of the final grade.

2) Research project counts as 25% of the final grade (RP). Implementation of the stages of the Research project takes 50% of the total number of hours of out-of-class work of students.

FINAL TEST (EXAM (WE))

The final test (examination) will be for a duration of 1 ½ hours. The examinations will include problem solving exercises covered in the text and the seminars. (41-100 is passed, below 40 –failed).

The final exam counts as 50% of the final grade.

This course adopts a 100-point system for final marking. The five elements (AT, AS, WE and PR) in the aforementioned integrated marking scheme are given points. A final mark is determined by the summing-up of the points as follows.

AT– Active Attendance	9
AS–Assignment RP– Research project	41
WE– Written Exam	50
Total	100
Special requirements and details: none	

Final mark = AT + AS + RP + WE (calculated using weights and maximum showed result)

Grading:

ECTS Grade	Points	Russian grade
A	100-91 points	“excellent”: 100–80 points
B	90-81	
C	80-71	“good”: 79– 60 points
D	70-61	
F: failed	less than 60 points: failed	“satisfactory”: 59–40 points
		“unsatisfactorily”: failed, less than 40 points

Electronic text publication

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Редактор

Подготовка к публикации

Рекомендовано Методическим советом

Разрешено к публикации

Электронный формат – pdf

Объем .10. уч.–изд. л.



620002, Екатеринбург, ул. Мира, 19

Информационный портал УрФУ

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