

Industrial Organization

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APE Program M2: 2017-2018

This course is a core course in industrial organization.

The topic of the course is to study how markets work when perfect competition is not an acceptable assumption on the supply side. The course will cover models of imperfect competition among firms and it will propose an analysis of various pricing strategies, marketing strategies and other strategic manipulations that characterize firms' behavior when they try to gain or maintain market power.

The course requires a good knowledge in Microeconomics as well as in Game Theory. Attendance to the course of Introduction to Industrial Organization (J. Pouyet, M1-S2 in 2016-2017) is not a prerequisite, although it would definitely help. The course will focus mostly on introducing standard theoretical models and explaining central theoretical contributions in the field, although some applied examples and empirical investigations will also be presented. It should be viewed as a prerequisite for the courses in Empirical Industrial Organization (A. Secchi, S2) and IO and applications (D. Spector, S2).

The course consists in 12 sessions of 3h each, with two half-sessions dedicated to exercises. Evaluation will rely only on a final exam only. A reading list will be provided that contains roughly 2 required readings per session and 3-4 additional readings per session to go further.

Basic textbooks that will prove useful are:

- Tirole, J., 1988, *The Theory of Industrial Organization*, MIT Press.
- Belleflamme, P. and M. Peitz, 2010, *Industrial Organization: Markets and Strategies*, Cambridge University Press.

Schedule

1. Oligopoly and differentiation (BC – 07/09)
 - a. Reminder on imperfect competition in homogenous goods
 - b. Differentiation models
2. Entry, exit and the dynamics of market structure (JPT – 14/09)
 - a. Contestability. Free entry, sunk cost, optimal diversity
 - b. Strategies under the threat of entry: accommodation, deterrence, exit; and examples
3. Information on goods: advertising, search (BC – 21/09)
 - a. Advertising and other marketing strategies
 - b. Consumers' inertia and search costs

4. Sophisticated pricing strategies (JPT – 28/09)
 - a. Monopolistic personalized pricing, group pricing, and menu pricing
 - b. Price discrimination in oligopoly
5. Bundling & Exercise session 1 (JPT – 5/10)
 - a. Bundling
 - b. Exercises on lectures 1-4
6. Vertically agreements (JPT – 12/10)
 - a. Double marginalization and pricing solutions
 - b. Vertical restraints, vertical integration and vertical contracts
7. Vertically related markets: foreclosure, mergers (JPT – 19/10)
 - a. Exclusionary practices, predation and foreclosure
 - b. Vertical mergers
8. Networks and platforms (BC – 9/11)
 - a. Markets with standard network goods: compatibility and standards
 - b. Intermediated goods and two-sided platforms
9. Innovation and R&D (BC – 16/11)
 - a. Incentives to innovation, patent races and spillover effects
 - b. Patent law and patent design
10. Protection of Intellectual Property & Exercise session 2 (BC – 23/11)
 - a. Patent pools and standards
 - b. Exercises on lecture 5-9
11. Horizontal agreements, cartels and mergers (JPT – 30/11)
 - a. Explicit and implicit cartels, super-games of collusion
 - b. Factors facilitating collusion and basics of competition policy
 - c. Horizontal mergers and the merger paradox
12. Behavioral model of non-fully rational consumers (BC – 7/12)
 - a. Inattentive and non-bayesian consumers
 - b. Changing preferences and time-inconsistency
 - c. Loss aversion