

## **INDUSTRIAL ORGANIZATION. 2008. QED.**

**Professor: Ramon Faulí-Oller.**

### 1. OBJECTIVES.

Industrial organization studies market situations with imperfect competition. As the topic is very broad the present course focus on the strategic decisions taken by firms to affect the behavior of competitors. In this respect a crucial aspect is the role played by commitment. In the last part of the course, one study cases where this commitment is obtained by changes in ownership.

### 2. METHODOLOGY.

The course consists of 10 theoretical lectures of 3 hours each. The last lecture will be devoted to presentation of a papers by students. Classes will consist on presenting the papers of the different parts of the program and students will be encouraged to participate in the discussion.

### 3. ASSESSMENT.

The course grade will be based on the presentation of a paper in class and in a research project students will have to write.

### 4. CONTACT INFORMATION

Departament de Fonaments de l'Anàlisi Econòmica  
University of Alicante  
Campus de Sant Vicent, 03080 Alicante, Spain.

Phone: +34 965 90 36 17

Fax: +34 965 90 38 98

E-mail: [fauli@merlin.fae.ua](mailto:fauli@merlin.fae.ua).

### 5. OUTLINE OF THE COURSE

#### 1. Two-stage games.

- Strategic substitutes and strategic complements.
- Cost-reducing investment.
- Stackelberg game (quantity and price)
  - Endogenizing the roles. Saloner, G. (1987) "Cournot Duopoly with two production periods" *Journal of Economic Theory*, Vol.42 pp.183-187.
  - Pal, D. (1991) "Cournot duopoly with two production periods and cost differentials" *Journal of Economic Theory*, Vol 55 pp. 441-448.
  - Pacheco-de-Almeida G. and P. Zemsky (2003) "The effect of time to build on strategic investment under uncertainty" *RAND Journal of Economics*, Vol 34, No1 Spring pp. 166-182.
  - Partial Commitment. Henkel, J. (2002) "The 1.5th mover advantage" *RAND Journal of Economics*. Vol.33, No1. Spring. pp. 156-170

- Imperfect observability. Maggi, G. (1999) “The value of commitment with imperfect observability and private information” RAND Journal of Economics. Vol 30.No4. Winter.

## 2. Delegation Games.

- Articles with restricted set of observable contracts.
- Equivalence between quantity and price competition. Miller N. and Pazgal A. (2001) “The equivalence of price and quantity competition with delegation” Rand Journal of Economics. Vol.32, No2 Summer. Pp.284-301
- Multiplicity of equilibria. Kühn, K-U (1997) “Nonlinear pricing in Vertically Related Duopolies” RAND Journal of Economics. 28(1) pp.37-62.
- Nonobservability of contracts. Koçkesen, L and Ok, E (2004) “Strategic Delegation by unobservable incentive contracts” Review of Economic Studies 71, 397-424.
- Common Agents and Principals. Prat, A. and A.Rustichini (2003) “Games Played through Agents” Econometrica. Vol.71, No4 pp.989-1026
- Multilateral contracting: Jackson, M.O. and Wilkie, S. (2005) “Endogenous Games and Mechanisms: Side payments among players” Review of Economic Studies 72, pp. 543-566.

## 3. Horizontal Integration.

- Profitability of mergers.
- Welfare Effects of mergers. Farrell, J. and Shapiro, C. (1990) “Horizontal Mergers: and Equilibrium Analysis” American Economic Review, 80, pp.107-126.

## 4. Vertical Relationships.

- Segal, I. (1999) “Contracting with Externalities” Quarterly Journal of Economics. Vol CXIV. 2
- Rey, P. and Tirole, J. (2003) “A Primer on Foreclosure” in M. Armstrong and R.H. Porter eds *Handbook on Industrial Organization*, 3. New York: North Holland, forthcoming.

## 5. Product Differentiation.

- Horizontal Differentiation.
- Vertical Differentiation.
- Johnson, J. and Myatt, D.P. (2003) “Multiproduct Quality Competition: Fighting Brands and Product Line Pruning” American Economic Review. Vol 93. No3 pp.748-774.
- ATMs: Massoud, N., and D.Bernhardt (2002) ““Rip-off” ATM surcharges” RAND Journal of Economics 33, No1 pp.96-115.

## 6. REFERENCES.

### MAIN REFERENCES

Corchón, L. (2001) *Theories of Imperfectly Competitive Markets*. Springer

Martin, S (2002) *Advanced Industrial Economics*. Blackwell Publishers.

Shy, O (1995) *Industrial Organization*. MIT Press.

Tirole, J. (1993) *The Theory of Industrial Organization*. MIT Press.

Vives, X. (2000) *Oligopoly Pricing*. MIT Press.

## REFERENCES FOR CHAPTERS

### Chapter I

Bagwell, Kyle (1995) "Commitment and Observability in Games" *Games and Economic Behavior* 8, 271-280

Bulow, J., J. Geanakoplos and P. Klemperer (1985) "Multimarket Oligopoly: Strategic Substitutes and Complements" *Journal of Political Economy* 93, pp. 488-511.

Caruana, G., and L. Einav (2005) "Production targets" Mimeo

Fudenberg, D., and J. Tirole (1984) "The Fat Cat Effect, the Puppy Dog Ploy and the Lean and Hungry Look" *American Economic Review, papers and Proceedings* 74, pp.361-368

Judd, K.L. and M.H. Riordan (1994) "Price and Quality in a New Product Monopoly" *Review of Economic Studies* 61, 773-789.

Maggi, Giovanni (1999) "The value of commitment with imperfect observability and private information" *RAND Journal of Economics*. Vol. 30. No 4 Winter. 555-574

Singh, N. and X. Vives (1984) "Price and quantity Competition in a Differentiated Duopoly" *Rand Journal of Economics*, 15, 546-554.

Van Damme, E. and Hurkens, S. (1997). Games with imperfectly observable commitment. *Games Econ. Behav.* **21**, pp. 282–308.

Várdy F. (2004) "The value of commitment in Stackelberg games with observation costs" *Games and Economic Behavior* 49 374-400

### Chapter II

Baye, M., K. Crocker, and J. Ju, (1996) "Divisionalization, Franchising and Divestiture Incentives in Oligopoly", *American Economic Review*, 86, 223-236

Bonanno, G. and J. Vickers (1988) "Vertical separation" *Journal of Industrial Economics*. March; 36(3): 257-65.

Brander, J. and B. Spencer (1984) "Tariff Protection and Imperfect Competition" in Monopolistic Competition and International Trade, ed. H. Kierzowski. Oxford University Press.

Corchón, L. (1991) Oligopolistic Competition among Groups, *Economics Letters*, 36, 1-3.

Corchón, L. and M. González-Maestre (2000), "On the competitive effects of divisionalization", *Mathematical Social Sciences*, 39, 71-79.

Faulí-Oller, R. and Giralt, M. (1985) "Competition and Cooperation within a Multidivisional Firm" *The Journal of Industrial Economics*. Vol.XLIII, March.

Fershtman, C. and K. Judd (1987) "Equilibrium Incentives in Oligopoly" *The American economic review*, vol. 77 n°5, 927-940

Katz, M. (1991) "Game-Playing Agents: Unobservable Contracts as Precommitments", *Rand Journal of Economics*, 22, 307-328.

Klemperer, P. and Meyer, M. (1989) "Supply Function Equilibria in Oligopoly under Uncertainty", *Econometrica*, 57, 1243-1277.

Kühn, Kai-Uwe (1997) "Nonlinear pricing in Vertically Related Duopolies" *Rand Journal of Economics*. 28(1): 37-62

Maksimovic V. (1990) "Product Market Imperfections and Loan Commitments" *The Journal of Finance* XLV n°5, 1641-

Sklivas, S. (1987) "The strategic Choice of Managerial Incentives" *Rand Journal of Economics*, 18(3), 452-458.

Vickers, J. (1985) "Delegation and the Theory of the Firm" *Economic Journal Supplement*, 95, 138-147.

### Chapter III

Deneckere, R. and C. Davidson (1985) " Incentives to Form Coalitions with Bertrand Competition" *Rand journal of Economics*, 16, 473-486.

Faulí-Oller, R. (1997) "On Merger Profitability in a Cournot Setting", *Economics Letters*, Vol 54. 75-79

Faulí-Oller, R. (2002) "Mergers between asymmetric firms: profitability and welfare" *The Manchester School* 70 n°1, 77-87.

Faulí-Oller, R. and M. Motta (1996) "Managerial Incentives for Takeovers" *The Journal of Economics and Management Strategy*. Vol. 5. N° 4. 497-514.

Faulí-Oller, R. (2000) "Takeover Waves". The Journal of Economics and Management Strategy. Vol.9. Nº 2. 189-210.

Farrell, J. and Shapiro, C. (1990) "Horizontal Mergers: an Equilibrium Analysis", American Economic Review, Vol 80. 107-126

Huck, S. K. A. Konrad and W. Muller (2001) "Big fish eat small fish: on merger in Stackelberg markets" Economics Letters 73, 213-217

Lommerud, K.E. and L Sorgard (1997) "Merger and product range rivalry". International Journal of industrial Organization 16, 21-42.

Perry, M-K- and R.H. Porter (1985) "Oligopoly and the Incentive for Horizontal Merger" American Economic Review, 75, 219-227.

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#### Chapter IV

Chen, Y (2001) "On vertical mergers and their competitive effects" RAND Journal of Economics, Vol.32, No4. Winter

Chen, Z. (2003) "Dominant Retailers and the countervailing-power hypothesis" RAND Journal of Economics. Vol 34, no4 pp.612-625

Corts, K. S. and D.V. Neher (2003) "Credible delegation" European Economic Review 47. 395-407.

Rey, P. and J. Tirole, "Foreclosure", in M. Armstrong and R.H. Porter, eds, *Handbook of Industrial Organization*, 3. New York: North-Holland, forthcoming.

Segal, I and M.D. Whinston (2003) "Robust predictions for bilateral contracting with externalities" Econometrica, Vol 71, No3 pp. 757-791

Yoshida, Y. (2000) "Third-degree price discrimination in Input Markets: Output and Welfare" American Economic Review. March. pp.240-246.

#### Chapter V

D'Aspremont, C. , J. Gabszewicz and J.F. Thisse (1979) "On Hotelling's Stability in Competition" Econometrica 47, 1145-1150.

Bhaskar, V and To, T (2004) "Is perfect discrimination really efficient? An analysis of free entry" RAND Journal of Economics. Vol.35.No4 pp.762-776

Gabszewicz, J.J. and J.F. Thisse (1980) "Entry (and exit) in a Differentiated Industry" Journal of Economic Theory 22. 327-338.

Hotelling, H. (1929) "Stability in Competition". *Economic Journal*, 39, 41-57.

Motta, M.(1993) "Endogenous Quality Choice: Prices vs. Quantity Competition" *The Journal of industrial economics*. XLI 113-131.

Salop, S. (1979) "Monopolistic Competition with Outside Goods", *Bell Journal of Economics*, 10, 141-156.

Shaked, A. and J. Sutton (1983) "Natural oligopolies" *Econometrica*, Vol 51, No5. 1469-1483

Sutton, J. (1991) *Sunk costs and Market Structure: Price Competition, Advertising and the Evolution of Concentration* The MIT Press, Cambridge, Mass

## READING LIST

Athey, S. and A. Schmutzler (2001) “Investment and Market Dominance” RAND Journal of Economics 32 n1 Spring

Bhaskar, V and T. To (2004) “Is perfect price discrimination Really Efficient? An Analysis of Free Entry” RAND Journal of Economics 35n4 Winter

Biglaiser, G. and P. DeGraba (2001) “Downstream Integration by a Bottleneck Input Supplier whose Regulated Wholesale Prices are Above Costs” RAND Journal of Economics 32 n2 Summer. YES

Boone, J. (2000) “Competitive Pressure: The effects on investment in Product and Process Innovation” RAND Journal of Economics 31 n3 Autumn

Chen, Y. “On Vertical Mergers and their Competitive Effects” RAND Journal of Economics 32 n4 Winter. YES

Chen, Z (2003) “Dominant Retailers and the Countervailing Power Hypothesis” RAND Journal of Economics 34 n4 Winter YES

Chen, Z. and T.W. Ross (2000). “Strategic Alliances, shared facilities and entry deterrence” RAND Journal of Economics 31 n2 Summer. YES

Choi, J and C. Stefanadis “Tying, Investment and the Dynamic Leverage Theory” RAND Journal of Economics 32 n1 Spring YES

Choi, J. and S. Yi (2000) “Vertical Foreclosure with the Choice of Input Specifications” RAND Journal of Economics. 31 n4 Winter YES

Dessein W. (2003) “Network Competition in Nonlinear Pricing” RAND Journal of Economics 34 n2 Winter.

Fontenay, C and J. Gans (2005) “Vertical Integration in the Presence of Upstream Competition” RAND Journal of Economics 36 n3 Autumn YES

Fudenberg, D and J. Tirole “Customer Poaching and Brand Switching” RAND Journal of Economics 31 n4 Winter.

Inderst, R. and C. Wey (2003) “Bargaining, mergers and Technology Choice in Bilaterally Oligopolistic Industries” RAND Journal of Economics 34 n1 Spring YES

Segal, I. and M. Whinston (2000) “Exclusive Contracts and Protection of Investment” RAND Journal of Economics 31 n4 Winter.

C. Taylor (2003) “Supplier Surfing: Competition and consumer Behavior in Subscription Markets” RAND Journal of Economics 34 n2

Valetti, T.M. and C. Cambini (2005) "Investment and Network Competition" *RAND Journal of Economics*, 36, 446-467.