

Professor Peter Doeringer
Department of Economics
Fall, 2003

Economics 377

BUSINESS and GOVERNMENT

Course Outline and Reading Assignments

This course is about the economics of American manufacturing firms. It examines how the economic strategies of business affect national economic performance and growth and how public policy can contribute to stronger business performance. The first part of the course reviews the historical sources and patterns of growth in the U.S. economy, followed by a review of microeconomic theory of business performance. The second part explores the structure, conduct, and performance of the American economy through case studies of seven major industries. The final part of the course analyzes four areas of public policy – competition, R&D, education and training, and regional industrial policy -- directed at improving the performance of American industry. Economics 303 (or its equivalent) is recommended, but not required.

The course requirements include: an exam on the economic theory of business conduct (15% of the course grade), a mid-term examination (20% of the course grade), the preparation of an original case study of a business or industry (30% of the course grade), and a final examination (35% of the course grade). Missed examinations can only be made-up with a written medical excuse and extensions on papers must be approved in advance. Regularity of class attendance and participation will count when the final course grade is on a borderline. Students are expected to adhere to the CAS Academic Code of Conduct. CAS regulations governing plagiarism and cheating on exams are strictly enforced in this course.

Required Readings

The texts for the course are Don E. Waldman and Elizabeth J. Jensen, **Industrial Organization (2nd Edition)**; Henry Aaron and Charles Schultze (Eds.), **Setting Domestic Priorities: What Can Government Do?** and Walter Adams and James Brock, **The Structure of American Industry** (tenth edition). **Additional readings are on reserve in Mugar Library and there will be occasional handouts in class.**

Office Hours and Questions: My office is Room 404A at 264 Bay State Rd. I can be reached at 617-353-4438 or Doeringe@bu.edu. Office hours are Mondays 3 - 4:30 and Wednesdays 3:30 - 5:00, or by appointment.

Final Exam: Friday, December 19, 3-5 (No exceptions)

I. The Performance of the American Economy

1. The Current Setting

Paul Krugman, "Can America Stay on Top?", *Journal of Economic Perspectives*, Winter 2000

2. Accounting For Historical Trends in Economic Performance

Jeremy Atack and Peter Passell, *A New Economic View of American History*, Ch.1.

Martin Neil Baily and Alok K. Chakrabarti, *Innovation and the Productivity Crisis*, Ch.1, Ch. 2, pp. 13-34

Handout" "Information Technology and Economic Growth in Canada and the U.S.", *Monthly Labor Review*, October 2002, pp. 8-9

3. Productivity Change and the New Economy

Economic Report of the President and Annual Report of the Council of Economic Advisers, 2002, Chapter 1, pp. 23-36 and "Box 1-4" on pp. 58-60 (available at <http://w3.access.gpo.gov/eop/>)

Martin Neal Baily, "The New Economy: Post Mortem or Second Wind", *Journal of Economic Perspectives*, Vol. 16, No. 2, Spring 2002,

4. Alternative Theories of Business Performance

Competition vs. Market Structure: Waldman and Jensen, Ch. 1

Competitive Advantage: Michael E. Porter, *The Competitive Advantage of Nations*, Ch. 1 pp. 11-18, Ch. 2, pp. 33-53

Schumpeterian Innovation: Waldman and Jensen, Ch. 13, pp. 396-399

II. Competitive Business Conduct

1. Theory of Competitive Business Conduct

Waldman and Jensen, Ch.2, pp. 14-35

2. The First Industrial Revolution and Atomistic Market Structure

Jeremy Atack and Peter Passell, *A New Economic View of American History*, Ch.7.

3. Structure, Conduct, and Performance Under Competition

Adams and Brock, Ch. 1 (Agriculture)

III. *Theories of Strategic Business Conduct*

1. *Monopoly*

Waldman and Jensen, Ch. 2, pp. 37-44

2. *Monopolistic Competition*

Waldman and Jensen, Ch. 2, pp. 44-47

3. *Oligopoly*

Waldman and Jensen, Ch. 6, pp. 167-173 (Prisoners Dilemma and repeated games)

Waldman and Jensen, Ch. 7, pp. 183-189, 204-206 (Cournot and Stackelberg models)

4. *Collusion*

Waldman and Jensen, Ch. 3, pp. 75-79

Waldman and Jensen, Ch. 8, pp. 228-230, 246-248

IV. *Overview of Structure and Performance in Markets With Strategic Conduct*

1. The "Second" Industrial Revolution

Jeremy Atack and Peter Passell, *A New Economic View of American History*, Ch. 17.

Alfred D. Chandler, "Organizational Capabilities and Economic History of the Industrial Firm", *Journal of Economic Perspectives*, Summer 1992.

2. Trends in Market Structure

Waldman and Jensen, Ch. 4.

Economic Report of the President and Annual Report of the Council of Economic Advisers, 2002, Ch. 3, pp. 103-107 (available at <http://w3.access.gpo.gov/eop/>)

3. Entry and Exit: Market Power, and Contestable Markets

Waldman and Jensen, Ch. 5, pp.126-135, 137-157

4. Economic Performance

Waldman and Jensen, Ch. 16, pp. 494-517

Robert J. Gordon, "Does the 'New Economy' Measure Up to the Great Inventions of the Past?", *Journal of Economic Perspectives* Vol. 14 no. 4 Fall 2000 pp. 49-74

V. Case Studies of Markets with Strategic Conduct

1. Monopoly and Tight Oligopoly Conduct

Waldman and Jensen Ch. 8, pp. 238-246, Ch. 9, pp. 253-256; (collusion)

Waldman and Jensen, Ch. 9, pp 270-273, Ch. 11, pp. 318-323 (excess capacity)

Handout: The Cranberry Industry

Adams and Brock, Ch. 2 (Petroleum)

2. Oligopoly: Entry Barriers and Pricing Conduct

Waldman and Jensen, Ch. 11, pp. 328-334 (entry barriers from learning); pp. 334-339 (product proliferation)

Waldman and Jensen, Ch. 10, pp. 278-286, 291-294 (limit pricing); p. 294 definition of predatory pricing and 297-301 (predatory pricing)

Waldman and Jensen, Ch. 15, pp. 468-471 (vertical integration and "double marginalization")

Adams and Brock, Ch. 5 (Autos)

3. Differentiated Products and Advertising Conduct

Waldman and Jensen, Ch. 11, pp. 325-327, Ch. 12, pp. 385-386, (advertising); Ch. 12, pp. 357-358, 361-366 (product differentiation); Ch.11, pp. 339-411 (non-price entry barriers)

Waldman and Jensen, Ch. 12, pp. 369-373 (social benefits and costs)

Adams and Brock, Ch. 4 (Beer)

Waldman and Jensen, Ch. 19, pp. 607-608

4. Innovation and R&D

Waldman and Jensen, Ch. 13, pp. 399-408, 410-428

Walter Adams and James Brock, **The Structure of American Industry** (ninth edition), Ch. 7 (Pharmaceuticals) *Note: This chapter is not in the text and is on reserve at Mugar*

Adams and Brock, Ch. 6 (Computers)

Waldman and Jensen, Ch. 17

Benjamin Klein, "The Microsoft Case: What Can a Dominant Firm Do To Defend Its Market Position?", *Journal of Economic Perspectives*, Spring 2001, pp. 45-62

5. Flexible Specialization and Atomistic Production Networks

Michael J. Piore and Charles Sable, **The Second Industrial Divide**, Ch. 2, pp. 19-31.

Peter B. Doeringer and Audrey Watson, "Apparel", in David C. Mowery (Ed.), *U.S. Industry In 2000*.

VI. Public Policy

1. Competition Policies

Waldman and Jensen, Ch. 18, pp. 557-563, 572-573, 574-577

Waldman and Jensen, Ch. 19, pp. 590-594, 598-601

Adams and Brock, Ch. 13

William E. Kovacic and Carl Shapiro, "Antitrust Policy: A Century Economic and Legal Thinking", *Journal of Economic Perspectives*, vol. 14, No. 1, Winter 2000, pp. 43-60

Richard Schmalensee, "Antitrust Issues in Schumpeterian Industries", *American Economic Review*, May 2000

Economic Report of the President and Annual Report of the Council of Economic Advisers, 2002, Ch. 5, pp. 112-116, pp. 130-142 (available at <http://w3.access.gpo.gov/eop/>)

2. R & D Policy

Linda R. Cohen and Roger Noll, "Research. and Development" in Henry Aaron and Charles Schultze, *Setting Domestic Priorities: What Can Government Do?*

Martin Neil Baily and Alok K.Chakrabarti, *Innovation and the Productivity Crisis*, Ch. 2, pp. 34-39

Economic Report of the President and Annual Report of the Council of Economic Advisers, 1999, Ch. 5, pp. 173-181 (available at <http://w3.access.gpo.gov/eop/>)

Economic Report of the President and Annual Report of the Council of Economic Advisers, 2001, Ch. 3, pp. 110-119 (available at <http://w3.access.gpo.gov/eop/>)

3. Education and Training Policy

Richard Murnane and Frank Levy, "Education and Training" in Henry Aaron and Charles Schultze, *Setting Domestic Priorities: What Can Government Do?*

Sar Levitan and Garth Mangum, *Federal Human Resources Policy From Kennedy To Clinton*, "Assessment", pp.27-52.

Handout On Human Capital Theory

4. Business Strategy and the New Economy

Economic Report of the President and Annual Report of the Council of Economic Advisers, 2001, Ch. 3, pp. 121-143 (available at <http://w3.access.gpo.gov/eop/>)

Peter B. Doeringer, et al., *Startup Factories*, ch.3

5. Regional Industrial Policy

Clifford Winston and Barry Bosworth, "Public Infrastructure", in Henry Aaron and Charles Schultze, *Setting Domestic Priorities: What Can Government Do?*

Timothy Bartik, *Federal Policy Towards State and Local Economic Development*

Peter B. Doeringer, David G. Terkla, and Gregory C. Topakian, *Invisible Factors in Local Economic Development*, chs. 1 - 2