

## **EC333 Market Organization and Public policy (Regulation and Antitrust)**

Fall 2014

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Office hours: M 3:00 pm - 4:30 pm; W 9:00 am – 10:30 am.

### Course overview:

Perfect competition is known to generate the best possible welfare outcomes but real markets are often quite separated from this benchmark. First of all, technological reasons may render competition among several firms impossible (returns to scale are increasing and this leads to the monopolization of the market) or this competition may be undesirable from the point of view of efficiency (replication of high fixed costs turns out to be socially wasteful). Furthermore, some firm practices tend to hamper the reach of the welfare properties of competition. This course studies the Economics of Regulation and Antitrust, developing the microeconomic tools needed to analyze these market situations, including the government interventions designed to remedy the problems, and establishes a guide to the economic policies to be developed in order to maximize social welfare. The views about the working of the markets and the economic policy instruments to be used have evolved very rapidly in the last 25 years, and real policy has changed dramatically both in the United States and the European Union, raising hot cases, debates and new developments. The aim of this course is to provide up-to-date knowledge of the micro tools employed to analyze the market regulation and antitrust issues and develop the ability to apply them to the analysis of the real world industries and competition cases. This course has as prerequisites EC201 and some knowledge of calculus.

### Text:

*The Economics of Regulation and Antitrust*, W. K. Viscusi, J. E. Harrington and J. M. Vernon, 4<sup>th</sup> ed., MIT Press. ISBN 978-0-2-62220-0.

### Other readings:

Handouts and other readings will be given during the course and posted on the website. Two more books contain readings that are not required but may be of interest for some students. The first discusses specific competition cases from the point of view of economic analysis. The second contains antitrust European Union examples.

*The Antitrust Revolution: Economics, Competition and Policy*, J.E. Kwoka and L.J. White, 4<sup>th</sup> ed., Oxford University Press. ISBN 0-19-516118-1.

*Competition Policy: Theory and Practice*, M. Motta, Cambridge University Press. ISBN 0-521-01691-6.

Course Website:

All course announcements and documents will be posted on the Blackboard website.

Office Hours and Appointments:

Contact me by email in case of course conflict with the scheduled time for my office hours.

Teaching Fellow:

So Hyun An is the teaching fellow assigned to the course.

Office: B17C. Office hours: Th 11:00 am- 12:00 pm; E-mail: sohyunan@bu.edu

Attendance:

Students are expected to attend all lectures. Each lecture will build on the knowledge acquired in the previous one and, if you miss a class, you are responsible for getting the lecture notes from your classmates.

Class Preparation, Participation and Assignments:

The ideal way to learn is to read the assigned chapters before lectures, attend the class and ask questions during the lecture, and to study the chapter and notes after the lecture, working at the same time on the solution of the assigned set of problems.

There will be about 6 problem sets and some other exercises. Selected problems will be solved and discussed in class and all solutions posted. Students are encouraged to form small groups to work on the assignments but you must take into account that the final aim is to develop the ability to solve the problems by yourself. Assignments will not be graded.

Exams and grading:

Exams will be based on problems and exercises similar to those assigned during the course in the problem sets. Course grades will be based on two midterm exams and a cumulative final exam. In principle, each midterm will count for 25% of the final grade and the final exam 50%, but if a student's score on the final exam is higher than the average of the midterms, these weights will be updated to 15%, 15% and 70%.

Final letter grades will be assigned taking into account the final class scores distribution.

Academic Conduct:

It is the student's responsibility to understand and observe the BU Academic Conduct Code. It can be accessed at <http://www.bu.edu/academics/resources/academic-conduct-code/>.

### **Course outline**

Minor changes might be made during the course. They will be announced in class and posted on the website. Some of the book chapters will not be required in their entirety.

Particular industries and cases will be the object of voluntary presentations by student teams. The topic will be previously agreed and the outcome will be taken into account in grading.

*Review: Basic Microeconomics*

*Competition, Efficiency and Welfare* (Chapter 4, PS #1)

### **Regulation**

Introduction to Economic Regulation (Chapter 10)

Natural Monopoly, Regulating a Monopolist (Chapter 11, PS #2 and PS #3)

Regulation in Practice (Chapter 12, PS #4)

### **Midterm Exam 1: Wednesday, October 1**

Industries: Electric Power (Chapter 12)  
Telecommunications (Chapter 15)  
Airlines (Chapter 17)

Other (depending on time): Internet  
Pharma  
Cable TV and Broadcasting  
Health care...

### **Antitrust**

Introduction to Antitrust (Chapter 3)

Oligopoly and Collusion (Chapter 5, PS #5)

### **Midterm Exam 2: Monday, November 3**

Market Structure and Entry (Chapter 6, PS #6)

Horizontal Mergers, Vertical Mergers and Restraints (Chapters 7 and 8, PS #7)

Cases: Microsoft (Chapter 9)

Other (depending on time): Airline mergers  
Hospital mergers

### **Final Exam: Monday, December 15, 3:00 pm – 5:00 pm**