

Prof. Jordi Jaumandreu

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Office hours: T 5 pm-6:30 pm; Th 5 am-6:30 pm.

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 (e.g. returns to scale are increasing and this favors 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, 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 have evolved very rapidly. Hot cases, debates and new developments are the rule. The aim of this course is to provide up-to-date knowledge of the micro tools employed, and a first contact with current issues. The course has as prerequisites EC201 or EC501 and some knowledge of calculus.

Textbook and other references:

The textbook is

The Economics of Regulation and Antitrust, W. K. Viscusi, J. E. Harrington and D.E.M. Sappington, 5th ed., MIT Press, 2018.

The student may find useful as complementary readings:

Regulatory Reform: Economic Analysis and British Experience, M. Armstrong, S. Cowan and J. Vickers, MIT Press, 1994.

Industrial Organization: A Strategic Approach, J. Church and R. Ware, Irwin McGraw-Hill, 2000.

Competition in Telecommunications, J.J. Laffont and J. Tirole, MIT Press, 2000.

Handouts and other readings will be given during the course and posted on the website.

Course Website:

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

Teaching Fellow:

Rubaiyat Alam, E-mail: ralam@bu.edu.

Assignments:

There will be a number of problem sets and practices. Selected problems will be solved in class and all solutions posted.

Presentations:

Students will form small teams to present in class the topics of their choice (in agreement with the instructor) in the third part of the course. Presentations need to have the active participation of all members of the team. The final exam will include a question on the topic presented by the student as well as a question on a presentation by other team.

Exams and Grading:

There are two midterms and a cumulative final exam. Each midterm will count for 20% of the final grade, presentations 20%, and the final exam 40%. Exams will take place during class time in the specified dates.

Especial situations:

There will be no makeup exams. Any student who goes through an especial situation (e.g. medical emergency) must report the situation by email before the exam takes place and contact me as soon as possible to set a solution.

Academic Conduct:

You should understand and observe the CAS Academic Conduct Code. It is available at <http://www.bu.edu/academics/resources/academic-conduct-code>.

Course outline:

Minor changes will be posted on the website. Chapters (Ch.) are not required in its totality, sometimes are just an indication where you can find material on the topic.

1. Introduction to Economic Regulation (Chs. 1, 2 and 10)
2. Natural Monopoly, Network Effects (Chs. 12 and 14)
3. Optimal pricing with symmetric information: Single-product Monopoly (Ch. 12)
 - First Optimum
 - Price equal to Average Cost
 - Nonlinear Pricing
4. Optimal pricing with symmetric information: Multiproduct Monopoly (Ch. 12)
 - Ramsey Pricing
 - Optimal Pricing in Two Sided Markets
 - Time of Use Pricing

Midterm Exam 1: Thursday, February 9

5. Optimal pricing with asymmetric information: Traditional vs. Incentive Regulation (Ch. 13)
6. Price Caps, Yardstick Regulation (Ch. 13)
7. Market Structure: Access pricing (Ch. 7 and 8)

Midterm Exam 2: Thursday, April 6

Presentation topics:
(Other topics may be approved)

Internet and Net Neutrality (Ch. 9)

The New Retail: Amazon, Alibaba (Ch. 9)

Internet Domination: Google, Facebook (Ch. 9)

Financial Sector: 2008 and beyond (Ch. 18)

Environmental regulation: Global Warming (Ch. 21)

Telecommunication: New Cell-phone Technologies

Electricity: Smart Networks

Health: The Medical Loss Ratio Regulation

Final Exam: TBA by the university.