Course Structure and Grading

Why are some firms vertically integrated while others are not? How do firms price their products? What is price-gouging and can we explain it through economic models? How does one measure market structure and hence competition? What is the role of public policy in ensuring competitive markets?

These are some of the fascinating questions which I hope to address in this course. In a most simple fashion, economics teaches us that perfectly competitive markets result in an efficient allocation of resources. Producers offer goods priced at marginal cost, while consumers pay prices that reflect their marginal valuation. However, in reality, there are very few industries which are perfectly competitive.

This course is a study of different theories of ‘imperfectly competitive’ markets and their implications for prices, output, and welfare. I will attempt to spend some time illustrating the policy relevance of these concepts by relating them to actual legal status under the Competition Act of Canada as well as actual case studies. These case studies are examples of how the Competition Bureau of Canada has sometimes been compelled to investigate the exercise of market power by firms, which is only possible – although not necessary - in imperfectly competitive industries.

I will be using the first edition of ‘Industrial Organization: A Strategic Approach’ by Jeffrey Church and Roger Ware (C & W), which can be downloaded at no cost from http://homepages.ucalgary.ca/~jrchurch/page4/page4.html. As the course progresses, I will probably supplement the textbook with readings from a variety of academic journals. In particular, graduate students will be given a separate reading list.
The prerequisite for this course is ECON 301, which also implies having taken ECON 211. Introductory Econometrics (ECON 321) will be helpful but not essential. Students are advised to review ECON 201 and ECON 211 in order to refresh themselves with basic micro-economic and mathematical concepts that will be used copiously in the lectures.

I will be covering a lot of material quite quickly – so diligent class attendance may be helpful.

**Grading Scheme**
Midterm - June 19th - 30%
Term paper (due on the last day of class) 25%
Final Exam 45% (on a date set by the University)

Exams for graduate students will be conducted separately from undergraduates.

I will be distributing assignments every (roughly) two weeks. Although they will not be graded, attempting to solve assignments individually is highly recommended as corresponding questions on the midterm and final exams will be similar.

Students who are unable to take the midterm on the set date and do not have a valid medical certificate will be assigned a mark of ‘0’. Those with a valid excuse will have the weight assigned to the midterm, transferred to their final exam. There is no make up test for missing the midterm. To clarify, I do not schedule separate test or exam dates in order to accommodate individual specific problems related to (but not restricted to): (1) the occurrence of other tests on the same day; and (2) the possibility that the test/exam conflicts with vacation plans.

Neither the instructor nor the Department of Economics will respond to student enquiries regarding test marks or final grades.

**Etiquette:** On separate issues: (1) I do not respond to emails asking questions on material taught in class. I am more than happy to spend time explaining and clarifying concepts during office hours or by appointment; (2) Students are welcome to bring laptop computers during class. However, they are only meant to be used in a manner that is relevant to what is being taught and discussed in lectures. Browsing of the internet is not permitted as it can be extremely distracting to me and more importantly, to other students. If relevant, I will notify you whether accessing the internet during class lectures is possible; (3) finally, cell phones and blackberries or any other electronic device that can be used for communication with other individuals or access to the internet must be switched off during class lectures.
The following chapters will be covered from C & W:

Chapter 1: Introduction
Chapter 2: The Welfare Economics of Market Power
Chapter 3: Theory of the Firm
Chapter 4: Market Power and Dominant Firms
Chapter 5: Non-Linear Pricing and Price Discrimination
Chapter 7: Basic Game Theory and the Nash Equilibrium
Chapter 8: Cournot and Bertrand Competition
Chapter 9: Subgame Perfect Nash Equilibrium and Repeated Games
Chapter 10: Dynamic Models of Oligopoly
Chapter 11: Product Differentiation
Chapter 12: Identifying and Measuring Market Power
Chapter 13: Stackelberg and Entry Games
Chapter 14: Entry Deterrence
Chapter 15: Strategic Behavior: Principles
Chapter 19: The Theory of the Market
Chapter 20: Raising Rivals’ Costs
Chapter 21: Predatory Pricing
Chapter 22: Vertical Integration and Vertical Restraints
Chapter 23: Horizontal Mergers

Note on avoidance of academic offences: All students registered in the courses of the Faculty of Arts are expected to know what constitutes an academic offence, to avoid committing academic offences, and to take responsibility for their academic actions. When the commission of an offence is established, disciplinary penalties will be imposed in accordance with Policy #71 (Student Academic Discipline). For information on categories of offences and types of penalties, students are directed to consult the summary of Policy #71 (Student Academic Discipline) which is supplied in the Undergraduate Calendar (p. 1:11). If you need help in learning how to avoid offenses such as plagiarism, cheating, and double submission, or if you need clarification of aspects of the discipline policy, ask your course instructor for guidance. Other resources regarding the discipline policy are your academic advisor and the undergraduate associate dean.