

THE UNIVERSITY OF THE WEST INDIES, MONA

# ECON6051: Industrial Organization I

Semester I, 2020-21

Pre-requisites: ECON6004, ECON2016, or permission of Lecturer

Lecturer: Peter-John Gordon

Lectures: M 11 am–12 noon D101; W 11 am–1pm.

Office Hours: M, W 9 am – 11 am.

## Description

Industrial Organization studies the functioning of markets. It is concerned with business behavior and strategy, as well as their implications for economic efficiency especially when the assumptions of perfect competition do not hold. The role of public policy in promoting efficiency will also be examined.

This course is highly theoretical. Students will make extensive use of their first year Microeconomic Theory and Game Theory.

## Learning Outcomes

Upon successful completion of the course, the student should be able to:

- Explain why firms exist.
- Demonstrate competence in monopoly pricing
- Explain Cost Distortion caused by monopolies
- Explain Rent-Seeking Behaviour
- Explain product selection by firms
- Explain the welfare effects of Price Discrimination
- Determine the outcomes from inter brand and intra brand competition

## Modes of Delivery

Three hours of lectures per week. Some of these lecture hours will be used for problem solving sessions.

## Assessment

A mid-semester exam (40%) and a final exam (60%). Material covered on the mid-semester will not be re-examined on the final.

## Syllabus

1. The Theory of the Firm
  - What is a Firm
  - The Profit-Maximization Hypothesis
  - The Principal-Agent Relationship

Tirole Ch. 0

## 2. The Exercise of Monopoly Power

- Pricing Behaviour
- Cost Distortions
- Rent-Seeking Behaviour
- Durable Goods and Limits on Monopoly Power

Tirole Ch. 1

## 3. Product Selection, Quality and Advertising

- The Notion of Product Space
- Quality and Information
- Advertising
- Repeat Purchases

Tirole Ch. 2

## 4. Price Discrimination

- Perfect Price Discrimination
- Multimarket (Third-Degree) Price Discrimination
- Personal Arbitrate and Screening (Second-Degree Price Discrimination)
- Non-linear Pricing

Tirole Ch. 3

## 5. Vertical Control

- Linear Prices versus Vertical Restraints
- Externalities and Vertical Control
- Intrabrand Competition
- Interbrand Competition
- Competition-Reducing Restraints

Tirole Ch. 4

Additional Topics and/or References may be given during the course of the class.

## Resources

### Prescribed

- Tirole, Jean. 1988. *Industrial Organization*. Cambridge: MIT Press.

I will follow this text very closely. This remains the seminal text in Industrial Organization despite its age. It gives the best survey of the subject.

In order to maximize the benefit for this course, students should see the problem sets as a learning tool to be taken seriously. Every attempt should be made to work these problems, first individually, then collectively, **before** solutions are provided in class.