

# Econ 468: Industrial Organization and Imperfect Competition

Jean-François Houde  
Department of Economics  
University of Wisconsin-Madison

Fall 2010

**Professor:** Jean-François Houde  
email: [houdejf@ssc.wisc.edu](mailto:houdejf@ssc.wisc.edu)  
office: 7438 SS  
office hours: Wednesdays, 9:00 - 10:30

**Teacher Assistant:** Serafin Grundl  
email: [grundl@wisc.edu](mailto:grundl@wisc.edu)  
office: 7222 SS  
office hours: Mondays, 9:00-11:00

**Course Website:** <http://www.ssc.wisc.edu/~houdejf>

## 1 Introduction

The course applies price theory to the behavior of “imperfectly competitive” markets (i.e. cases that fall somewhere between perfect competition and monopoly). The broad objective is to demonstrate how economic theory can be used to understand the diverse business practices and strategies encountered in real-world markets. It is designed for the student who enjoys and is adept at basic economic theory and is interested in application of the theory. While there is some discussion of public policies, such as antitrust, this is not a systematic or self-contained but is intended to help illustrate the underlying theory. This is a theoretical course, even though we might use real work business examples as illustrations. This course assumes a good knowledge of microeconomic theory and calculus.

## 2 Texts

The recommended texts for the class are:

*Industrial Organization: Contemporary Theory and Practice*, Lynne Pepall, Daniel Richards, and George Norman, Thomson, 4th Edition, 2008.

*The Antitrust Casebook: Milestones in Economic Regulation*, William Breit and Kenneth Elzinga, Dryden Press, 3rd Edition, 1996.

*Lectures Notes for an Undergraduate Course in Market Structure and Regulation*, Ken Hendricks and Asher Wolinsky (available online)

Other textbooks:

Jeffrey Church and Roger Ware, *Industrial Organization: A Strategic Approach*, Mc-Graw Hill.

The first edition is available online for **free** at

<http://homepages.ucalgary.ca/~jrchurch/page4/page4.html>

*The Antitrust Revolution*, by J. Kwoka and L. White, Oxford University Press, 1999.

Oz Shy, *Industrial Organization: Theory and Applications*, 1996, The MIT Press.

Dennis W. Carlton and Jeffrey M. Perloff, *Modern Industrial Organization*, 4th edition (or older), Harper/Collins.

The electronic slides from the course will be posted online everyweek.<sup>1</sup>

## 3 Evaluation

The course grade will be determined by:

1. 4 Problem sets (20%)
2. Midterm exam 1 (20%): October 14, 2010
3. Midterm exam 2 (20%): November 23, 2010
4. Final exam (40%): December 17, 2010 (at 7:45)
5. Full completion bonus: 5%

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<sup>1</sup>Some of this material is adapted from Ken Hendricks' undergraduate IO course, as well as Ali Hortacsu and Julie Mortimer' undergraduate IO classes, taught at Harvard and Chicago.

Note: Each midterm last 45 minutes (2 problems).

You can work in teams of 2 or 3 for the problem sets, as long as you clearly indicate the names of each team-member on the cover sheet. Problem sets and answer keys will be posted on the website. **The midterm exams will not be rescheduled for any student for any reason.** If you miss one midterm exam the final will be worth 60%. If you miss both midterms you cannot get more than 80%.

## 4 Course Outline

1. Introduction, review and monopoly
  - (a) Introduction
  - (b) Theory of the firm
  - (c) Review of cost concepts
  - (d) Perfect competition
  - (e) Monopoly:
    - i. Pricing and deadweight loss
    - ii. Price discrimination
    - iii. Bundling
    - iv. Durable good
2. Standard models of oligopoly
  - (a) Homogeneous good oligopoly
  - (b) Dynamic oligopoly and collusion
  - (c) Product differentiation
3. Other topics
  - (a) Information and advertising
  - (b) Entry
  - (c) Network effects
  - (d) Vertical relationships
  - (e) Patents and R&D
  - (f) Antitrust and government regulations
  - (g) Auctions