G772: Public Policies Toward Business

Course Description: This course covers the three major public policies toward business--antitrust/competition policy, regulation/deregulation, and public/private ownership. For each, we apply theory and empirical understanding from industrial economics in order to analyze the issues and evaluate policy. Examples are drawn primarily from the U.S. together with some international experiences.

Readings: There are three textbooks that will be used extensively in this course.

Church and Ware, *Industrial Organization: A Strategic Approach*
Kwoka and White, *The Antitrust Revolution 4/e*
Motta, *Competition Policy: Theory and Practice*

Readings designated as coming from the third edition of Kwoka and White (“3/e”) are available online at: www.oup.com/us/antitrustrevolution. A few additional readings are taken from your Tirole text used in G771. Copies of all other required readings (marked with a * in the list below) will be made available to you.

Course Metrics: Grading in the course will be based on the following:

(1) A midterm exam plus a final. The midterm will take place on October 23 and cover Section A of the syllabus. The final will cover the entire course but be weighted toward the remaining material. The midterm counts 30% of your grade and the final 50%

(2) A paper and presentation, details to follow. This will account for the remaining 20% of your grade.
**Guide to readings:** The following abbreviations are used throughout this reading list:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Journal Name</th>
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<tbody>
<tr>
<td>AB</td>
<td>Antitrust Bulletin</td>
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<tr>
<td>AER</td>
<td>American Economic Review</td>
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<tr>
<td>ALJ</td>
<td>Antitrust Law Journal</td>
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<tr>
<td>BJE</td>
<td>Bell Journal of Economics</td>
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<tr>
<td>CJE</td>
<td>Canadian Journal of Economics</td>
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<tr>
<td>HIO</td>
<td>Handbook of Industrial Organization</td>
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<tr>
<td>IJIO</td>
<td>International Journal of Industrial Organization</td>
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<tr>
<td>JEL</td>
<td>Journal of Economic Literature</td>
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<tr>
<td>JEMS</td>
<td>Journal of Economic and Management Strategies</td>
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<tr>
<td>JEP</td>
<td>Journal of Economic Perspectives</td>
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<tr>
<td>JIE</td>
<td>Journal of Industrial Economics</td>
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<tr>
<td>JLE</td>
<td>Journal of Law and Economics</td>
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<tr>
<td>JLEO</td>
<td>Journal of Law, Economics and Organization</td>
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<tr>
<td>JPAM</td>
<td>Journal of Policy Analysis and Management</td>
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<tr>
<td>JPE</td>
<td>Journal of Political Economy</td>
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<td>JRE</td>
<td>Journal of Regulatory Economics</td>
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<td>MDE</td>
<td>Managerial and Decision Economics</td>
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<td>QJE</td>
<td>Quarterly Journal of Economics</td>
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<td>REStat</td>
<td>Review of Economics and Statistics</td>
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<td>RIO</td>
<td>Review of Industrial Organization</td>
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<tr>
<td>RJE</td>
<td>Rand Journal of Economics</td>
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<tr>
<td>SEJ</td>
<td>Southern Economic Journal</td>
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READINGS

A. ANTITRUST

1. Overview (1)
   *Motta, ch. 1
   *Church and Ware, Appendix

2. Coordinated Behavior (2)
   *Motta, ch. 2 (pp. 137-166, 185-195)
   *Church and Ware, ch. 10.5-10.7
   *Cooper, “Most Favored Customer Clauses and Tacit Collusion,” RJE, Autumn 1986
   Kwoka and White, 3/e:
     *Hay on Ethyl, pp. 190-200
   Kwoka and White:
     *ch. 9, Borenstein on Airline Tariff Publishing
     *ch. 10, Connor on Lysine, pp. 252-262
     ch.8, Porter and Zona on bid rigging
   Salop, “Practices That (Credibly) Facilitate Oligopoly Coordination,” in Stiglitz and Mathewson, New Developments in the Analysis of Market Structure
   Christie and Schultz, “Did NASDAQ Market Makers Implicitly Collude?” JEP, 1995

3. Horizontal Mergers (3)
   *Church and Ware, ch.23
   *Motta, ch. 5 (pp. 231-270)
   *Kim and Singal, “Mergers and Market Power,” AER, 1993
   Kwoka and White:
     *ch. 2, Dalkir and Warren-Boulton on Staples-Office Depot
     ch. 5, Bulow and Shapiro on BP Amoco-ARCO
   Kwoka and White, 3/e:
     *White on Coke-Dr Pepper

4. Monopolization by Predation (1.5)
*Church and Ware, ch. 21
*Motta, ch. 7 (pp. 412-454)
Kwoka and White, 3/e:
  *Burnett on Liggett
Kwoka and White:
  *ch. 20, Edlin and Farrell on American Airlines
*Katz, “Recent Antitrust Enforcement Actions by the US Department of Justice,” RIO, 2003, pp. 391-393
Facey and Assaf, “Monopolization and Abuse of Dominance in Canada, the United States and the European Union: A Survey,” ALJ, 2002

5. Monopolization by Exclusion (2)
*Church and Ware, ch. 20
*Tirole, pp. 333-336
*Katz, RIO, 2003, pp. 380-383
Kwoka and White:
  *ch. 19, Rubinfeld on Microsoft
  *ch. 16, Nalebuff on GE-Honeywell
*Motta, ch. 6 (pp. 378-391), ch. 7 (pp. 460-468)
*Carlton and Waldman, “The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries,” RJE, Summer 2002
Whinston, “Exclusivity and Tying,” JEP, 2001
Nalebuff, “Bundling as an Entry Barrier,” QJE, 2004
6. **Vertical Issues** (1.5)

* Church-Ware, ch. 22
* Motta, ch. 6 (pp. 302-378, but no technical sections)

Kwoka and White:
* ch. 13, Scherer on Toys R Us
* ch. 17, MacKie-Mason and Metzler on Kodak

Kwoka and White 3/e

Lynk on Jefferson Parish-Hyde


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**B. REGULATION AND DEREGULATION**

1. **Overview and Assessment** (.5)

* Church and Ware, ch. 24 (pp. 748-772)


2. **Principles of Price Regulation** (2)

* Church and Ware, ch. 25.1-25.3, ch. 26.2 (pp. 840-852)


Armstrong, *Regulatory Reform*, ch. 2-3

3. **Deregulation of Multifirm Industries: Airlines** (2)


* Borenstein, “Hubs and High Fares,” *RJE*, Autumn 1989


Borenstein and Netz, “Why Do All the Flights Leave at 8 am?” *IJIO*, 1999
Peteraf and Reed, “Pricing and Performance in Monopoly Airline Markets,” *JLE*, 1994

4. Deregulation of Multiproduct Firms: Telecom (2)
*Church and Ware, ch. 26.1-26.3
Kwoka and White:
*ch. 4, Pelcovits on MCI WorldCom and Sprint
Kwoka and White, 3/e:
Brenner on Bell Atlantic-Nynex

5. Restructuring and Residual Regulation: Electricity (2)
Newbery and Pollitt, “Restructuring and Privatization of Britain’s CEGB—Was It Worth It?” *JIE*, 1997
Borenstein, “The Trouble with Electricity Markets and the California Electricity
Restructuring Disaster,” *JEP*, 2002

C. PUBLIC ENTERPRISE

1. **Theories of Public vs. Private Ownership** (1)

2. **Evidence on Effects** (1.5)
   * Viscusi, Vernon, and Harrington, ch. 14 (pp. 463-472)
   Lopez-de-Salines, Shelifer, and Vishny, “Privatization in the United States,” *RJE*, 1997
   Peltzman, “Pricing in Public and Private Enterprises,” *JLE*, 19??