

ECON6301

Strategic Market Behaviour and Government Regulation

Course Outline

Semester 2, 2017

Course-Specific Information

The Business School expects that you are familiar with the contents of this course outline. You must also be familiar with the Course Outlines Policies webpage which contains key information on:

- Program Learning Goals and Outcomes
- Academic Integrity and Plagiarism
- Student Responsibilities and Conduct
- Special Consideration
- Student Support and Resources

This webpage can be found on the Business School website:

<https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>

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1 STAFF CONTACT DETAILS

Lecturer-in-charge: Professor Hodaka Morita

Location: Room 414 UNSW Business School

Phone: 9385 3341

Email: h.morita@unsw.edu.au

Consultation: Thursday 4:30pm–6:30 pm

1.1 Communications with staff

You should feel free to contact your lecturer about any academic matter. However, I strongly encourage, for efficiency, all enquiries about the subject material be made at lectures or during consultation time. Discussion of course subject material will not be entered into via lengthy emails.

Email correspondence on administrative matters will be responded to within 48 hours, but not over weekends. Please note that the lecturer has no advance notice of the date and time of the final exam [the subject of many emails].

2 COURSE DETAILS

2.1 Teaching Times and Locations

Lectures start in Week 1 (to Week 12). The time(s) and location(s) is/are:

Wednesdays 18:00 – 21:00
Business School 205 (K-E12-205)

2.2 Units of Credit

The course is worth 6 units of credit.

This course is taught in parallel to both undergraduate and postgraduate students.

2.3 Summary of Course

This is a course intended for honours and post graduate students interested in industrial organization. As such, this course will be demanding.

Topics covered will be from amongst the following. Monopoly and price discrimination, oligopoly and product differentiation, product durability, cartels and tacit collusion, strategic incumbents and entry, vertically related markets, and R&D and intellectual property. Emphasis will be on theoretical results.

The assessment will be based on a final exam (60%, date to be determined) and problem set assignments (40%, due dates to be announced later).

2.4 Aims and Relationship to Other Courses

The main goal of this course is to provide students with a set of tools and knowledge that would enable them to critically read recent research papers and conduct their own original research in industrial organization. In particular, we focus on investigation into how firms exercise market power in a variety of settings and how the government may curb the negative side effects through regulation. We will develop rigorous theoretical models maintaining their close connections to reality, elaborate on economic logic and intuitions behind the analyses, and discuss real-world implications. The course

emphasizes the importance of a theoretical understanding of strategic behaviour as the foundation for any practical application to industry.

We will discuss:

- Monopolistic markets
- Oligopolistic industry structure
- The role of government regulation
- Firm strategies over prices, location choice, product characteristics, entry and exit, and Mergers
- Dynamic competition and collusion
- R&D incentives and intellectual property rights

This course requires that you have completed QMA (ECON1202), QMB (ECON1203), and intermediate microeconomics (ECON2101) (or equivalent courses). In addition, this course assumes your knowledge of basic game theory, elementary calculus, and basic statistics.

2.5 Student Learning Outcomes

The Course Learning Outcomes are what you should be able to DO by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

The Learning Outcomes in this course also help you to achieve some of the overall Program Learning Goals and Outcomes for all students in the BUSINESS SCHOOL. Program Learning Goals are what we want you to BE or HAVE by the time you successfully complete your degree. You demonstrate this by achieving specific Program Learning Outcomes - what you are able to DO by the end of your degree.

For more information on Program Learning Goals and Outcomes, see the School's Course Outlines Policies webpage available at <https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>.

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed:

Program Learning Goals and Outcomes		Course Learning Outcomes	Course Assessment Item
<i>This course helps you to achieve the following learning goals</i>		<i>On successful completion of the course, you should be able to:</i>	<i>This learning outcome will be assessed in the following items:</i>
1	Knowledge	Understand the determinants of strategic behaviour in oligopoly markets. Understand the determinants of industry structure.	Assignments Final Exam

2	Critical thinking and problem solving	Model the behaviour of monopolists in different circumstances. Evaluate the welfare implications of monopolists' behaviour. Evaluate the welfare implications of strategic behaviour.	Assignments Final Exam
3a	Written communication	Construct written work which is logically and professionally presented.	Assignments
3b	Oral communication	Communicate ideas in a succinct and clear manner.	Not specifically assessed.
4	Teamwork	Not specifically addressed in this course.	
5a.	Ethical, environmental and sustainability responsibility	Not specifically addressed in this course.	
5b.	Social and cultural awareness	Not specifically addressed in this course.	

3 LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

The philosophy underpinning this course and its Teaching and Learning Strategies are based on "Guidelines on Learning that Inform Teaching at UNSW. These guidelines may be viewed at: www.guidelinesonlearning.unsw.edu.au. Specifically, the lectures, tutorials and assessment have been designed to appropriately challenge students and support the achievement of the desired learning outcomes. A climate of inquiry and dialogue is encouraged between students and teachers and among students (in and out of class). The lecturers and tutors aim to provide meaningful and timely feedback to students to improve learning outcome.

3.2 Learning Activities and Teaching Strategies

The examinable content of the course is defined by the references given in the Lecture Schedule, the content of Lectures, and the content of the Tutorial Program.

Lectures

The purpose of Lectures is to provide a logical structure for the topics that make up the course; to emphasize the important concepts and methods of each topic, and to provide relevant examples to which the concepts and methods are applied.

Out-of-Class Study

While students may have preferred individual learning strategies, it is important to note that most learning will be achieved outside of class time. Lectures can only provide a structure to assist your study, and tutorial time is limited.

An "ideal" strategy (on which the provision of the course materials is based) might include:

- Reading of the relevant chapter(s) of the text and any readings **before the lecture**. This will give you a general idea of the topic area.
- Attendance at lectures. Here the context of the topic in the course and the important elements of the topic are identified. The relevance of the topic should be explained.
- Problem sets will be an integral part of learning and their importance cannot be overemphasized.

4 ASSESSMENT

4.0 You must complete the “Working with Academic Integrity” module on your Moodle site, before you hand in any written work.

- You **MUST** complete the ‘Working with Academic Integrity’ module AND THE MODULE’S QUIZ, found on your course Moodle site, **BEFORE YOU ARE ALLOWED TO SUBMIT ANY WRITTEN ASSESSMENT**.
- If your submission is delayed because you did not complete the module and the quiz, you may be liable to late penalties as specified in your course outline.
- Failing to comply with the University rules of Academic integrity may result in serious consequences:
 - All cases of plagiarism (regardless of their severity) ARE recorded with the University Integrity Office University register.
 - Depending on the level of the plagiarism/misconduct, the penalties may include a FAIL grade for the assessment piece, a FAIL grade for the course, or being expelled for serious/repeat offences.

Any misconduct, including plagiarism, is recorded on your Conduct Record. If you have only one academic misconduct at the lowest level (level A) in your career, then the record is wiped clear when you graduate. Otherwise it remains there permanently. *Many professions, such as accounting and law, require access to the student’s Conduct Record.*

4.1 Formal Requirements

In order to pass this course, you must:

- achieve a composite mark of at least 50 out of 100;
- make a satisfactory attempt at ALL assessment tasks (see below). This means a mark of at least 40% in all assessment items.

AND

- Achieve a satisfactory level of performance in the final exam. This means a minimum mark of 40 per cent. Any student having an overall mark of 50 or more but less than 40 per cent in the final examination will be given an UF grade (unsatisfactory fail).

4.2 Assessment Details

Assessment Task	Weighting	Length	Due Date
Assignments	40%	See 4.3 below	To be announced
Final Exam	60%	2 Hours	University Exam Period
Total	100%		

4.3 Assignment

It is expected that there will be four assignments (subject to change). Details will be provided in class.

Assignments should be typed or clearly handwritten.

4.3.1 Submission Procedure for Assignment

Submission details for assignments will be provided in class. Assignments should be submitted at the beginning of the lecture in which they are due. Assignments should include your full name and student number. It is your responsibility to keep an extra copy of the assignment in case the original is lost or damaged.

4.3.2 Late Submission of Assignment

If you fail to submit your assignment before the deadline you will be given a mark of zero. Special consideration does not apply to late submission of assignments. You will be given enough time to do the assignment and it is your risk if you leave it to the last few days to complete.

4.4 Final Exam Format

The final exam will be for 2 hours. It will cover all the materials covered by the course.

4.5 Protocol for viewing final exam scripts

The UNSW Business School has set a protocol under which students may view their final exam script. Please check the protocol [here](#).

4.6 Quality Assurance

The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential and will not be related to course grades.

5 COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's myExperience Survey Tool is one of the ways in which student evaluative feedback is gathered. You are strongly encouraged to take part in the feedback process.

6 COURSE RESOURCES

The website for this course is on Moodle: <http://moodle.telt.unsw.edu.au>

The textbook for this course is:

Belleflamme, P. and Peitz, M., *Industrial Organization: Markets and Strategies*, Cambridge University Press, 2015 (Second Edition). Note: If you prefer to use the first edition of the book (published in 2010), that is fine.

Also, the following book is recommended especially for PhD students.
Tirole, J., *The Theory of Industrial Organization*, MIT Press, 1988.

In the class, we will concentrate on theoretical principles. For those who are interested in antitrust (competition policy) issues, the following books are recommended:

Motta, M., *Competition Policy: Theory and Practice*, Cambridge University Press, 2004.

Whinston, M., *Lectures on Antitrust Economics*, MIT Press, 2006

7 COURSE SCHEDULE

Lectures start in Week 1 and finish in Week 12.

The following schedule is tentative. Not necessarily all of the following topics will be taught. The depth and inclusion of topics will be adapted to the size, interest and composition of the students.

1. Monopoly and Price Discrimination (Week 1)

- B-P (2015) Chapter 8.

2. A Brief Introduction to Game Theory (Week 1)

- Handout (distributed in class). B-P (2015) Appendix A.1-A.2.

3. Static Models of Oligopoly and Product Differentiation (Weeks 2 – 4 $\frac{1}{2}$)

- B-P (2015) Chapters 3, 4.1-4.2, 5, 15.1-15.2.
- Mankiw, G. and Whinston, M., "Free Entry and Social Inefficiency," *RAND Journal of Economics*, 1986, pp. 48-58.
- Salant, S. W., Switzer, S., and Reynolds, R. J., "Losses from Horizontal Merger: The Effects of an Exogenous Change in Industry Structure on Cournot-Nash Equilibrium," *Quarterly Journal of Economic*, 1983, pp. 185-199.
- Farrell, J. and Shapiro, C., "Horizontal Mergers: An Equilibrium Analysis," *American Economic Review*, 1990, pp. 107-126.

4. Product Durability (Weeks 4 $\frac{1}{2}$ – 6 $\frac{1}{2}$)

- Bulow, J., "Durable Goods Monopolists," *Journal of Political Economy*, 1982, pp.314-332.
- Waldman, M., "Eliminating the Market for Secondhand Goods: An Alternative Explanation for Leasing," *Journal of Law and Economics*, 1997, pp. 61-92.
- Morita, H. and Waldman, M., "Durable Goods, Monopoly Maintenance, and Time Inconsistency," *Journal of Economics & Management Strategy*, 2004, pp. 273 – 302.

- Bulow, J., "An Economic Theory of Planned Obsolescence," *Quarterly Journal of Economics*, 1986, pp.729-750.
- Waldman, M., "A New Perspective on Planned Obsolescence," *Quarterly Journal of Economics* , 1993, pp. 273-284.

5. Cartels and Tacit Collusion (Weeks 6 $\frac{1}{2}$ – 7)

- B-P (2015) Chapter 14.
- Bernheim, D. and Whinston, M.D., "Multimarket Contact and Collusive Behavior," *Rand Journal of Economics*, 1990, pp. 1-26.
- Rotemberg, J. and Saloner, G., "A Supergame-Theoretic Model of Business Cycles and Price Wars during Booms," *American Economic Review*, 1986, pp. 390-407.
- Green, E. and Porter, R., "Noncooperative Collusion under Imperfect Price Information," *Econometrica*, 1984, pp. 87-100.

6. Strategic incumbents and entry (Weeks 8 – 9)

- B-P (2015) Chapter 16.
- Dixit, A. K., "The Role of Investment in Entry-Deterrence," *Economic Journal*, 1980, pp. 95 – 106.
- Waldman, M., "The Role of Multiple Potential Entrants/Sequential Entry in Noncooperative Entry Deterrence," *Rand Journal of Economics*, 1991, pp. 446 – 453.
- Whinston, Michael D., "Tying, Foreclosure, and Exclusion," *American Economic Review*, 1991, pp. 837-859.

Note: No Class on 27 September due to Mid-Session Break.

7. Vertically Related Markets (Weeks 10 – 11 $\frac{1}{2}$)

- B-P (2015) Chapter 17.
- Rasmussen, E. B., Ramseyer, J. M., and Wiley Jr., J. S., "Naked Exclusion," *American Economic Review*, 1991, pp. 1137 – 1145.
- Salinger, M., "Vertical Mergers and Market Foreclosure," *Quarterly Journal of Economics*, 1988, pp. 345 – 356.
- Ghosh, A. and Morita, H., "Free Entry and Social Efficiency under Vertical Oligopoly," *Rand Journal of Economics*, 2007, pp. 539 – 552.

8. R&D and Intellectual Property (Weeks 11 $\frac{1}{2}$ – 12)

- B-P (2015) Chapters 18-19.
- Leahy, D. and Neary, J. P., "Public Policy Towards R&D in Oligopolistic Industries," *American Economic Review*, 1997, pp. 642 – 662.
- d'Aspremont, C. and Jacquemin, A., "Cooperative and Noncooperative R&D in Duopoly with Spillovers," *American Economic Review*, 1988, pp. 1133 – 1137.
- Lerner, J. and Tirole, J., "Efficient Patent Pools," *American Economic Review*, 2004, pp. 691-711.