

Econ 430: Industrial Organization
Spring 2000



Administrative Information

Instructor: Tisha Lin Nakao
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Lecture: MW, 9:30-10:45am, SPA 106

Course Outline

Principal Aim of the Course. The principal focus of this course is on the organization of firms and industries. We combine the latest theories with empirical evidence in order to achieve an understanding of the effects of industry structure on market outcomes. We also analyze a number of antitrust cases that allow students to see the objectives and limits of government policy. Students learn the elements of the modern theory of industrial organization and how to apply it to understand the economic problems of the day and to evaluate possible solutions. To this end, students are responsible for reading the economics, business, international and domestic news pages of a daily newspaper (the *New York Times*, *Los Angeles Times* and the *Wall Street Journal* are particularly recommended) as well as one weekly news magazine (*The Economist*, *Time*, *Newsweek*, *U.S. News and World Report*).

Methodology. The course is methodological in emphasis. We will use both theoretical and empirical approaches to solve problems in class and students will use similar approaches in exams. There will also be many antitrust cases and other readings that require students to use the theory learned in class to analyze legal and current issues.

Learning. To fully gain from the class, good learning techniques are to be adopted. These are regular attendance, continuous reading and frequent practice at applying the theory that you have learned. Good preparation includes studying class notes from the previous period prior to attending class. A premium is placed on logical thinking, to use what you have learned to work through a problem that you may not have seen before; rote memorization is not enough. The following policies regarding assignments, attendance and grading are aimed at promoting good learning, and the most effective use of class time. **These policies are administered without exceptions for individual students. This is to insure that ALL students are treated equally.**

Texts. Carlton & Perloff's Modern Industrial Organization, 3rd ed., 2000 and Breit & Elzinga's The Antitrust Casebook: Milestones in Economic Regulation, 3rd ed., 1996. The bookstore has both of these in stock. Each student is expected to acquire a copy of each. The chapters and cases we will be covering will be mentioned in class, and are indicated on the course outline that follows. Please note that simple definitions and concepts will not be covered in class, but you are expected to learn these materials through your reading. This allows more time for explaining more complex concepts and practicing applying theories learned in class to current issues. Students are expected to read the chapters ahead of time and be prepared to discuss them in class. Make good use of your texts, they are valuable resources!

Class Web site. An additional resource available to students is the class web site. The address for the class web site is www-scf.usc.edu/~tnakao/io.html. Students have 24-hour access to a great deal of information on the class. Items available through the site include but are not limited to the course outline and syllabus, quizzes and answer keys. Also, through e-mail you have greater access to the instructor. E-mailed questions are usually answered within 24 hours as I frequently check my e-mail. Technology is a wonderful thing – make use of this resource!

Assignments. Active learning is far superior to passive learning. Thus, the requirements of this course are designed to encourage participation. In order to participate, students need to attend and come to class prepared. For each class meeting, reading has been assigned and is indicated on the schedule. All quizzes will be on the assigned reading. Problems of the sort that can be expected on midterms and finals can be found at the end of the chapters in the text. While these problems will not be collected, it is in your best interest to complete them and ask questions regarding any problems with which you have difficulty. Additionally, students will be required to present one of the assigned case readings. This should take roughly 10 minutes and follow the general structure that I will demonstrate – explain the facts of the case, the relevant laws, the decision reached by the court, and analyze the decision given the economic theory learned in class. In the following schedule is a list of the cases covered in this course. All cases available for presentation have an “**” next to them. Each student should sign-up for their case by February 14, 2000. Finally, there will be a short paper. I will provide the class with a case, which should be analyzed in the same format as the presentation. *No late papers will be accepted. No make-ups on quizzes or exams will be permitted for any reason.*

Attendance. Students are expected to attend *all* scheduled lectures. Students are expected to be on time for class and stay for the entire period. If your schedule does not allow this, *do not take this class.* Students may not leave early unless permission is granted *before* class starts. No tape recording is allowed for any purpose, because part of good learning includes taking one's own class notes.

Grading. Grades are based on pop quizzes, a midterm, final, short paper, presentation and participation. Students are required to do all assigned work. *Late papers will not be accepted. There will be no make-ups for missed quizzes, but the two lowest quiz scores will be dropped. If you should miss the midterm, it will be treated in one of two ways. You may provide written, credible evidence from a professional explaining why you did not show up. An example is a doctor's letter or a police report explaining the circumstances surrounding your absence. You must also provide a phone number for the person who wrote the explanation for me to contact (and I will call). If you satisfactorily meet these conditions, you will receive the same relative score you earn on the final exam. Absent written and telephone explanations, you will receive a zero for the test. No matter what the reason, there will be no excuse accepted for missing the final exam; a student missing the final exam will receive a grade of zero.* The final will count 25%; the midterm will count 20%, the presentation 10%, the short paper 15%, the quizzes (after dropping the two lowest scores) 20%, and participation 10%.

Finally, please note: THE INSTRUCTOR IS NOT RESPONSIBLE FOR DROPPING ENROLLED STUDENTS. Students are obligated to officially withdraw even though they have not attended classes. Students who fail to officially withdraw are subject to a failing grade in the course. For more information, please consult the *Schedule of Classes*.

Schedule. There is a midterm, a final exam, a number of pop quizzes, a short paper and student presentations scheduled. The midterm is held in class and the paper is due on the indicated dates. The chapter numbers refer to the text Carlton & Perloff's Modern Industrial Organization, 3rd ed., and the cases are from Breit & Elzinga's The Antitrust Casebook: Milestones in Economic Regulation, 3rd ed.

* Please note that this is a tentative schedule and may be adjusted if the progress of the class warrants such a change. If any adjustments are made, these will be announced in class.

Week by Week*

Week 1

1/24	Introduction to Econ 430	
	The firm and costs	Chapter 2
1/26	Pit market experiment	Chapter 3
	Competition	

Week 2

1/31	Competition (continued)	Chapter 3
2/2	Monopolies	Chapter 4

Week 3

2/7	No class	Chapter 19
2/9	No class	Coase reading

Week 4

2/14	Breit (1-8)	Breit cases
	U.S. v. Alcoa (177-186)	
	Berkey Photo v. Eastman Kodak Co. (202-210)	Sign-up for presentation
	U.S. v. E.I. du Pont (196-201)	
	Prisoner's dilemma experiment	
2/16	Cartels	Chapter 5

Week 5

2/21	President's Day	
2/23	Non-cooperative oligopolies	Chapter 6

Week 6

2/28	Non-cooperative oligopolies (continued)	Chapter 6
3/1	U.S. v. Addyston Pipe (14-20)*	Breit cases
	U.S. v. Trenton Potteries (21-24)*	
	Arizona v. Maricopa Medical Society (50-59)*	
	U.S. v. Container Corp. (68-72)*	

Week 7

3/6	U.S. v. Gypsum Co. (73-77)*	Breit cases
	U.S. v. Socony-Vacuum (34-45)*	
	Goldfarb v. Virginia State Bar (46-49)*	
	Interstate Circuit v. U.S. (78-82)*	
	Du Pont v. FTC (85-93)*	
3/8	Midterm	Chapters 2-6, cases

Week 8

* tentative

3/13	Product differentiation and Monopolistic competition	<i>Chapter 7</i>
3/15	Product differentiation and Monopolistic competition (continued)	<i>Chapter 7</i>
Week 9		
3/20	Industry structure and performance	<i>Chapter 8</i>
3/22	U.S. v. Von's Grocery (142-149)*	<i>Breit cases</i>
	Northern Securities v. U.S. (112-119)*	
	Standard Oil v. U.S. (120-127)*	
	U.S. v. U.S. Steel (128-132)*	
	U.S. v. Brown Shoe (133-141)*	
Week 10		
3/27	Price discrimination	<i>Chapter 9</i>
3/29	Advanced topics in pricing	<i>Chapter 10</i>
Week 11		
4/3	Advanced topics in pricing (continued)	<i>Chapter 10</i>
4/5	Strategic behavior	<i>Chapter 11</i>
Week 12		
4/10	Strategic behavior (continued)	<i>Chapter 11</i>
4/12	Northeastern Telephone v. AT&T (305-308)*	<i>Breit cases</i>
	Matsushita v. Zenith (309-317)*	
	Aspen Skiing v. Aspen Highlands (283-291)*	
	Eastern Railroad Presidents v. Noerr (397-400)*	
	California Motor v. Trucking Unlimited (401-403)*	
Week 13		
4/17	Spring Recess	
4/19	Spring Recess	
Week 14		
4/24	Vertical integration and restrictions	<i>Chapter 12</i>
4/26	Vertical integration and restrictions	<i>Chapter 12</i>
		Paper due
Week 15		
5/1	Kiefer-Stewart v. J.E. Seagram (370-371)*	<i>Breit cases</i>
	U.S. v. Schwinn (372-376)*	
	Monsanto v. Spray-Rite Service Corp. (383-388)*	
	Continental TV v. GTE Sylvania (377-382)*	
5/3	Information experiment	
Week 16		
5/8	Information	<i>Chapter 13</i>
	Akerloff article	<i>Handout</i>
5/10	Semester summary and review	
5/19	Final exam, 8:00-10:00am	<i>Chapters 1-13, 19</i> <i>Antitrust cases</i> <i>Other readings</i>