

# Advanced Industrial Organization Theory, Spring 2021

**Instructor: Wang, Hao**

We will discuss some classic theories in industrial organization. Possible topics include market structure, nonlinear pricing, strategic behavior, asymmetric information, and bargaining. You are supposed to present in class a few papers that are assigned to you. Based on the lectures and readings, each of you should find a research topic on theoretic IO and explain it to your classmates. You will be asked to submit a research proposal at the end of the semester.

The grading of the course is based on your contribution to class discussion (20%), presentation assignments (30%), and research proposal (50%).

## Course outline:

### 1. Topics in competition and monopoly

- Baumol, W. J. 1982. "Contestable Markets: An Uprising in the Theory of Industry Structure." *American Economic Review*, 72(1): 1-15.
- Benjaafar S, Kong G, Li X, et al. 2019. "Peer-to-peer product sharing: Implications for ownership, usage, and social welfare in the sharing economy." *Management Science*, 65(2): 477-493.
- Bulow, J., 1982, "Durable Goods Monopolists," *Journal of Political Economy*, 90(2): 314-32.
- Bulow, J., 1986, "An Economic Theory of Planned Obsolescence," *Quarterly Journal of Economics*, 101(4): 729-749.
- Coase, R., 1972, "Durability and Monopoly," *Journal of Law and Economics*, 15(1): 143-49.
- Dana, J. 1999, "Equilibrium Price Dispersion under Demand Uncertainty: The Roles of Costly Capacity and Market Structure," *Rand Journal of Economics*, 30(3): 632-660.
- Eden, Benjamin, 1990. "Marginal Cost Pricing When Spot Markets Are Complete", *Journal of Political Economy*, 98(6): 1293-1306.

### 2. Collusion

- Bernheim D. and M. Whinston, 1990, "Multimarket Contact and Collusive Behavior," *The Rand Journal of Economics*. 21(1): 1-26.
- Chassang, S., and Ortner, J., 2019. "Collusion in auctions with constrained bids: Theory and evidence from public procurement." *Journal of Political Economy*, 127(5): 2269-2300.
- Colonescu, C., 2014. "Intra-Industry Debt and Tacit Collusion." *Journal of Finance and Bank Management*, 2(2): 71-85.
- Duso, T., Röller, L. H., and Seldeslachts, J., 2014. "Collusion through joint R&D: An empirical assessment." *Review of Economics and Statistics*, 96(2): 349-370.
- Eckbo, B. E. 1983. "Horizontal mergers, collusion, and stockholder wealth." *Journal of financial Economics*, 11(1-4): 241-273.
- Gilo, D., Moshe, Y., & Spiegel, Y. 2006. "Partial cross ownership and tacit collusion." *Rand journal of economics*, 37(1): 81-99.
- Marshall, R. C., and Marx, L. M., 2007. "Bidder collusion." *Journal of Economic Theory*, 133(1): 374-402.
- Miklós-Thal, J., and Tucker, C., 2019. "Collusion by algorithm: Does better demand prediction facilitate coordination between sellers?" *Management Science*, 65(4): 1552-1561.
- Rotemberg, J. J. and G. Saloner, 1986. "A supergame-theoretic model of price wars during booms." *American Economic Review*, 76 (3): 390-407.

### 3. Two-part pricing

- Akerlof, G. A. 1970. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics*, 84(3): pp. 488-500.
- Hayes, B. 1987. "Competition and two-part tariffs." *Journal of Business*, 60(1) 41-54.
- Png, I and H. Wang, 2010. "Buyer Uncertainty and Two-Part Pricing: Theory and Applications," *Management Science*, 56(2), pp. 334-342.
- Qi, Walter Y. 1971. "A Disneyland Dilemma: Two-part Tariffs for a Mickey Mouse monopoly." *Quarterly Journal of Economics*. Vol. 85, No. 1, pp. 77-96.

### 4. Health care

- Chiu H. "Health insurance and the welfare of health care consumers." *Journal of Public Economics* 1997; 64; 125-33.
- Crew M. "Coinsurance and the Welfare Economics of Medical Care." *American Economic Review* 1969; 59(5); 906-08.
- Feldstein M. "The welfare loss of excess health insurance." *Journal of Political Economy* 1973; 81; 251-80.
- Gaynor M, Haas-Wilson D, and Vogt W. "Are Invisible Hands Good Hands? Moral Hazard, Competition, and the Second-Best in Health Care Markets." *Journal of Political Economy* 2000; 108(5); 992-1005.
- Pauly, M. "The Economics of Moral Hazard: Comment." *American Economic Review* 1968; 58(3); 531-37.
- Vaithianathan R. "Health insurance and imperfect competition in the health care market." *Journal of Health Economics* 2006; 25; 1193-1202.
- Wigger B and Anlauf M. "Do consumers purchase too much health insurance? The role of market power in health-care markets." *Journal of Public Economic Theory* 2007; 9(3); 547-61.

### 5. Non-exclusionary vertical integration

- Bonanno, G. and J. Vickers, 1988, "Vertical Separation," *Journal of Industrial Economics*, 36(3): 257-265.
- Bulow, Jeremy I., John D. Geanakoplos, and Paul D. Klemperer. 1985. "Multimarket oligopoly: Strategic substitutes and complements." *Journal of Political economy*, 93.3: 488-511.
- Economides, Nicholas, and Steven C. Salop. 1992. "Competition and integration among complements, and network market structure." *Journal of Industrial Economics*, 40.1: 105-123.
- Rey, P. and J. Stiglitz, 1988, "Vertical Restraints and Producers' Competition," *European Economic Review*, 32(2-3): 561-568.
- Sonnenschein, H. 1968. "The dual of duopoly is complementary monopoly: or two of Cournot's theories are one." *Journal of Political Economy*, 76(2): 316-318.

### 6. Exclusionary vertical integration

- Bulow, Jeremy I., John D. Geanakoplos, and Paul D. Klemperer. 1985. "Multimarket oligopoly: Strategic substitutes and complements." *Journal of Political economy*, 93(3): 488-511.
- Chen, Yongmin, and Michael H. Riordan. 2007, "Vertical integration, exclusive dealing, and ex post cartelization." *RAND Journal of economics* 38.1: 1-21.
- Choi, Jay Pil, and Sang-Seung Yi. 2000, "Vertical foreclosure with the choice of input specifications." *Rand journal of economics*, 31(4): 717-743.
- Hart, O. and J. Tirole, 1990. "Vertical Integration and Market Foreclosure," *Brookings Papers: Microeconomics*.

- Nocke, Volker, and Lucy White. 2007. "Do vertical mergers facilitate upstream collusion?" *American Economic Review* 97.4: 1321-1339.
- Ordober, J. A., Saloner, G., & Salop, S. C. 1990. "Equilibrium vertical foreclosure." *American Economic Review*, pp. 127-142.
- Reiffen, D. 1992. "Equilibrium vertical foreclosure: Comment." *American Economic Review*, pp. 694-697.
- Riordan, Michael H., 2005, "Competitive Effects of Vertical Integration," Department of Economics Discussion Paper, No. 0506-11, Columbia University.

## 7. Exclusive dealing

- Aghion, P., and P. Bolton, 1987. "Contracts as a Barrier to Entry." *American Economic Review*, Vol. 77, pp. 388-401.
- Bork, R., 1978. "The Antitrust Paradox." New York: Free Press. ISBN 0-465-00369-9.
- Bernheim, D. and M. Whinston, 1998. "Exclusive dealing," *Journal of Political Economy*, 106(1), pp. 64-103.
- Marvel, H., 1982. "Exclusive Dealing," *Journal of Law and Economics*, 25(1).
- Rasmusen, E., M. Ramseyer and J. Wiley, Jr., 1991, "Naked Exclusion," *American Economic Review*, Vol. 81, No. 5, pp. 1137-1145.
- Segal, I. and M. Whinston, 2000, "Naked Exclusion: Comment," *American Economic Review*, 90(1), pp. 296-309.
- Ziss, S., 1996. "Contracts as a Barrier to Entry: Comment," *American Economic Review*, 86(3), 672-674.

## 8. Bargaining

- Abreu, D., and Gul, F., 2000. "Bargaining and reputation." *Econometrica*, 68(1): 85-117.
- Abreu D., D. Pearce and E. Stacchetti, 2015. "One-sided uncertainty and delay in reputational bargaining." *Theoretical Economics*, 10: 719-773.
- Admati A. and M. Perry, 1987. "Strategic Delay in Bargaining." *Review of Economic Studies*, 54(3): 345-364
- Binmore, K., A. Rubinstein and A. Wolinsky, 1986. "The Nash bargaining solution in economic modelling," *Rand Journal of Economics*, 17(2): 176-188.
- Cramton, P. 1992. "Strategic Delay in Bargaining with Two-Sided Uncertainty," *Review of Economic Studies*, 59(1): 205-225.
- Horn, H. and A. Wolinsky, 1988. "Bilateral monopolies and incentives for merger," *Rand Journal of Economics*, 19(3): 408-419.
- Rubinstein, A., 1985. "A Bargaining Model with Incomplete Information about Time Preferences," *Econometrica*, 53(5): 1151-1172.

## 9. Hidden types and mechanism design

- Chatterjee, K. 1982. "Incentive Compatibility in Bargaining Under Uncertainty," *Quarterly Journal of Economics*. 97(4), 717-726.
- Groves, T. and J. Ledyard, 1977. "Optimal Allocation of Public Goods: A Solution to the Free-Rider Problem," *Econometrica*, 45, 783-809.
- Mailath, J. and A. Postlewaite, 1990. "Asymmetric Information Bargaining Problems with Many Agents," *Review of Economic Studies*, 57(3), 351-367.
- Myerson, R, 1979. "Incentive compatibility and the bargaining problem," *Econometrica*, 47, 61-73.

- Myerson, R. and M. Satterthwaite, 1983. "Efficient Mechanisms for Bilateral Trading," *Journal of Economic Theory*, 29, 265-281.
- Rob, R. 1989. "Pollution Claim Settlements under Private information," *Journal of Economic Theory*, 47, 307-333.
- Vickrey, W. 1961. "Counterspeculation, auctions, and competitive sealed tenders," *Journal of Finance*, 16, 8-37.

#### 10. Coordination and the Coase Theorem

- Bernheim D. and D. Ray, 1989. "Collective Dynamic Consistency in Repeated Games." *Games and Economic Behavior*, 1, 295-326.
- Coase, R., 1960. "The problem of social cost." *Journal of Law and Economics*, 3(1), 1-44.
- Dixit, A. and M. Olson, 2000. "Does voluntary participation undermine the Coase Theorem," *Journal of Public Economics*, 76, 309-335.
- Ellingsen, T. and E. Paltseva, 2016. "Confining the Coase Theorem: Contracting, Ownership, and Free-riding," *Review of Economic Studies*, 83(2). 547-586.

#### 11. Moral hazard, incomplete contract and ownership

- Glaeser, Edward L., Andrei Shleifer. 2001. Not-for-profit Entrepreneurs. *Journal of Public Economics*. 81(1): 99-115.
- Hart, Oliver, Andrei Shleifer, Robert W. Vishny. 1997. The Proper Scope of Government: Theory and an Application to Prisons. *Quarterly Journal of Economics*. 112(4): 1127-1161.
- Hart, Oliver. 2003. Incomplete contracts and public ownership: Remarks, and an application to public-private partnerships. *Economic Journal*. 113(486): C69-C76.

#### 12. Indirect taxation

- Atkinson, Anthony. B. and Joseph. E. Stiglitz. 1972. "The Structure of Indirect Taxation and Economic Efficiency." *Journal of Public Economics* 1: 97-119.
- Blackorby, Charles and Sushama Murty. 2007. "Unit versus *ad valorem* taxes: Monopoly in general equilibrium." *Journal of Public Economics* 91(3-4): 817-822.
- Blackorby, Charles and Sushama Murty. 2013. "Unit versus *ad valorem* taxes: The private ownership of monopoly in general equilibrium." *Journal of Public Economic Theory* 15(4): 547-579.
- Lerner, Abba P. 1970. "Optimal Taxes with an Untaxable Sector." *The American Economic Review* 60(3): 284-294.
- Ramsey, Frank. P. 1927. "A Contribution to the Theory of Taxation." *Economic Journal* 37(145): 47-61.
- Skeath, Susan E. and Gregory A. Trandel. 1994. "A Pareto Comparison of *Ad valorem* and Unit Taxes in Noncompetitive Environments." *Journal of Public Economics*, 53(1): 53-71.
- Wang, H., 2018. "Optimal Indirect Taxes and Subsidies under Imperfect Competition", *Journal of Institutional and Theoretical Economics*, 174(2), 2018, pp. 334-350.