

University of Helsinki

Department of Economics

Economics of Competition and Antitrust

Markku Stenborg, PhD

Contact information:

ETLA & CEA Inc.

io@cea.fi

markku.stenborg@etla.fi

tel: (09) 6099 0241

fax: (09) 601 753

Syllabus

Period: 29.1.–30.4.2003

Lectures: Tuesdays 2-4 pm, Mariankatu 11, ls 2

Office Hours: At appointment after classes

Course homepage: <http://www.cea.fi/course/>

Introduction:

The course covers topics of competition and antitrust (competition policy). The main emphasis of the course lies in theoretical and empirical issues related to competition policy. These include mergers, dominant firms and coordination of market conduct. Special issues in the course are market definition in the antitrust analysis, mergers, collusion and abuse of dominant position.

Prerequisites:

Intermediate Microeconomics and related elementary Game Theory, or some similar background such as Managerial Economics. You should understand Nash equilibrium and the basics of oligopoly theory – see the related chapters, e.g., in *Intermediate Microeconomics* by Varian. You should be able to read and follow simple mathematical notation such as partial derivatives. Previous knowledge of Industrial Organization is helpful, although not necessary.

Textbooks

The main textbook for this course is

- Motta, Massimo (forthcoming) *Competition Policy: Theory and Practice*, Cambridge University Press

Prof. Motta has allowed me to distribute the draft of the book during the course. You can download the chapters from my website <http://www.cea.fi/course/textbook>. You are not allowed to redistribute the draft nor to reveal the login-name nor the password required for the page. Below, I indicate what parts of the textbook are required. I will also distribute some articles, some of which are required and some of which are for background knowledge. I will also put these articles on the web-site <http://www.cea.fi/course.htm>.

Some of the other textbooks and articles used are

- Cabral (2000) *Introduction to Industrial Organization*, MIT Press
- Church & Ware (2000) *Industrial Organization: A Strategic Approach*, McGraw-Hill
- Besanko, Dranove & Shanley (2000) *Economics of Strategy*, 2nd ed., John Wiley
- Gilbert, R. (1989) Mobility Barriers and the Value of Incumbency, in *Handbook of Industrial Organization* (Vol. 1), Schmalensee, R., and R. Willig (eds.), North Holland, 1989
- Kwoka & White (1999) *The Antitrust Revolution*, 3rd ed., Oxford University Press
- Ordover, J. and Saloner, G. (1989) Predation, Monopolization, and Antitrust, in *Handbook of Industrial Organization*
- Philips (1989) *Applied Industrial Economics*, Cambridge University Press
- Shapiro, C. (1989) Oligopoly Theory, in *Handbook of Industrial Organization*
- Shmalensee, R. (1989) Industry Studies of Structure and Performance, in *Handbook of Industrial Organization*
- Viscusi, Vernon & Harrington (1995) *Economics of Regulation and Antitrust*, 2nd ed., MIT Press

Evaluation

The grade will be composed of two items. First, there will be a *final exam*, and second, an *assignment*, which will be handed out during the course. The weight of this assignment will be one third toward the final grade. You need to get a passing grade for the assignment in order to get a passing grade for the whole course.

Course Outline

1. History and objectives of competition policy

- Brief history of competition laws and enforcement in the US and EU
- Objectives for competition policy
- Read Motta, Chapter 1, p 29-39

2. Market power and welfare

- Market power reduces allocative and productive efficiency
- Competition policy and innovation
- Market power and entry: contestable markets theory; sunk costs; switching costs.
- Read Motta, Chapter 2, p.1-29

3. Market definition and market power

- Main tests for (product and geographic) market definition.
- How to measure market power
- Oligopolistic competition
- Nash equilibrium
- Sub-game perfect Nash equilibrium in multi-stage games.
- Read Motta, Chapter 3
- Besanko, D., D. Dranove, and M. Shanley (2000) *Economics of Strategy*, 2nd ed., Wiley & Sons, 1996, Chapters 8 – 12, 14 – 15
- NERA (2001) “The role of market definition in monopoly and dominance inquiries”, Office of Fair Trading, DP # 2
- Werden, G. (1998) “Demand Elasticities in Antitrust Analysis”, *Antitrust Law Journal* 66, 363-414
- Epstein, R.J and D.L. Rubinfeld (2001) “Merger Simulation: A Simplified Approach with New Applications”, *Antitrust Law Journal*

4. Oligopoly

- Oligopolistic competition
- Nash equilibrium
- Sub-game perfect Nash equilibrium in multi-stage games.
- Bulow, J., J. Geneakoplos, and P. Klemperer (1985) “Multimarket Oligopoly: Strategic Substitutes and Complements”, *JPE* 93, 488-511
- Fudenberg, D., and J. Tirole (1984) “The Fat Cat Effect, the Puppy Dog Ploy, and the Lean and Hungry Look”, *AER P&P* 74, 361-8
- Besanko, D., D. Dranove, and M. Shanley (2000) *Economics of Strategy*, 2nd ed., Wiley & Sons, 1996, Chapters 8 – 12, 14 – 15
- Shapiro, C. (1989) Oligopoly Theory, in *Handbook of Industrial Organization*

5. Cartels and tacit collusion

- What is collusion: the economist's and the legal view reconciled

- Analysis of repeated games: factors which facilitate collusion
- Tacit collusion under secret price cuts
- Exchange of information
- How to deal with price parallelism
- Ex-ante and ex-post measures to fight collusion
- Read Motta, Chapter 4, p. 1-48
- Stenborg, (2003) “Forest for the Trees: Economic Analysis of Oligopolistic Dominance”, forthcoming
- Lofaro and Ridyard (2000) “The Economic Analysis of Joint Dominance under the EC Merger Regulation”, *European Business Organization Law Review* 1: 539-560 539

6. Horizontal mergers

- Merger regulation in the EC
- Single firm dominance (unilateral effects of mergers)
- Joint dominance (coordinated effects of mergers)
- Which variables matter? How to deal with merger cases?
- Read Motta, Chapter 5, 1-56
- Stenborg, (2003) “Forest for the Trees: Economic Analysis of Oligopolistic Dominance”
- Lofaro and Ridyard (2000) “The Economic Analysis of Joint Dominance under the EC Merger Regulation”, *European Business Organization Law Review* 1: 539-560 539

7. Vertical restraints

- Vertical externalities: the double marginalization case
- Horizontal externalities: the free-rider problem
- Combining vertical restraints to internalize externalities
- Welfare effects of vertical restraints: intra-brand vs inter-brand competition
- Vertical foreclosure: exclusive dealing and other instruments
- Read Motta, Chapter 6 (skip sections 2.3 and 3.2)

7. Price discrimination

- The welfare effects of price discrimination
- Anti-dumping: protectionism in disguise
- Motta, Chapter 7.4,

8. Predatory practices

- Predatory prices: long-purse and reputation story
- Product proliferation
- Tests of anti-competitive behavior
- Read Motta, Chapter 7.1-7.2

We will not be able to cover all the material above, but we shall pick and choose some of the topics.