Econ 330 – Industrial Organization
Spring 2021

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Course Description:

The purpose of this course is to study main concepts and analytical tools of the theory of industrial organization. Industrial organization studies how firms interact and compete with each other in the market. For instance, when a firm decides the price of its product, it takes into account that this decision affects profits of other firms in the market and these firms can react by changing their prices. These interdependences underlie most firms' decisions such us prices, product design, investment in R&D, advertising campaigns, location of outlets, or merger. The focus is predominantly on markets characterized by imperfect competition, i.e. markets where firms can exercise market power. This course will look at this question both from the perspective of firms and from that of public policy. Throughout the course we will examine an interesting tension, or a potential conflict of interest: while successful management of a firm often requires adoption and implementation of strategies to increase profits, create comparative advantage, increase market share or gain and sustain market power, these same strategies are sometimes constrained by public authorities because they are
seen as attempts, (in the words of European competition law), to "restrain and distort competition" We will therefore examine the impact of firm behavior on social welfare and what government agencies, such as the Competition Authority of Turkey, or supragovernmental bodies, such as the European Commission, do (or should and should not do) to regulate rivalry between firms.

The first part of the course will be devoted to monopolistic markets with only one firm and no actual competitors. We will investigate the efficiency losses associated to monopolistic markets. It will also be important to understand how the outcome of a monopolistic market depends on the number and characteristics of the products offered by the firm.

From there we will move to oligopolistic markets, with several firms competing in the market for the same good. The outcomes of these markets will be determined by

the firms' strategic optimal behavior. Firms will anticipate the decisions of other competing firms. Finally, we will study the effects of alternative government interventions in markets: what practices should antitrust law prohibit? Which are the effects of patent regulation on investment in R&D and on consumer welfare?

The tools for our analysis will be basic calculus and game theory. An effort will be made to keep the lectures self-contained. Most of the ideas can be understood with simple math and graphs, but students should be prepared to work with a certain level of formality.

Prerequisites:
Students are required to have attended (and have passed with a minimum grade of D) ECON204 (Microeconomics) and ECON 201 (Games and Strategies). **The course will also involve a good deal of mathematical analysis so you should also be comfortable with basic algebra and calculus.**

Suggested Textbooks:
Luis Cabral's Introduction to Industrial Organization, MIT Press, 2017, 2nd edition available from the bookstore.
Don Waldman and Elizabeth Jensen 's Industrial Organization: Theory and Practice, Pearson Press, 4th edition

Course Outline:
1. Introduction, theory of the firm, review of basic microeconomics
   Ch. 1, 2, 3, 6
2. Monopoly, monopoly regulation and monopoly tactics: Price discrimination, quality, product variety, bundling, tie-ins
   Ch. 5, 10
3. Introduction to game theory, Oligopoly and Collusion
   Ch. 4, 7, 8
4. Market Structure and Market Power
   Ch. 9
5. Vertical relations
   Ch. 11
6. Product variety
   Ch. 12
7. Advertising
   Ch. 13
8. Entry and social welfare
   Ch. 14
9. Predatory conduct and entry deterrence
   Ch. 15.1, 15.2
10. Mergers
    Ch 15.3

Grading :
The instructor has the right to update the syllabus and grading scheme during the semester depending on the needs.
Exams: There will be 1 midterm exam. The **Midterm counts for 40% of your overall grade**. The final exam constitutes %50 of your final grade. The final exam will be announced by the university during the regular exam week.

The make up exam will be given after the final exam and will be announced to those who will take them.

The exams are all in class exams. If any changes are made by the university, the instructor updates rules of online examination. By taking this course, you agree the rules of all online examinations.

Students who fail to show up for the exams indicated in the Syllabus without a valid excuse and not taking the make-up examinations for such exams will receive N/A as their final grade.

· In case of an online exam : **Your webcam must always be on during exams-if not, your exams will be void. You must connect to the Zoom link for the course with your official Sabancı University e-mail account, and not utilize other email accounts.**

Exam dates:
Midterm : April 28, 2021 Thursday
Final   : Announced by the university

Homeworks: There will be 6 graded homework assignments. Homeworks constitute 10 % of the final grades. Students are allowed to work in groups of at most 3. You are allowed to change groups in every homework set. Each group must submit one set of hand written answers.

Attendance:
Attendance is crucial in order for you to learn the course material.

Academic Integrity:
Receiving help from another student on an exam, giving help to another student on an exam, tampering with a graded exam, presenting another student's work as your own, and lying to the instructor, are all violations of academic honesty. In this course the penalty for cheating on an exam or homework assignment will be a grade of F in the course.

ZOOM link:

https://sabanciuniv.zoom.us/j/98914027169?pwd=MDh2TVh0b2YxQmc4Ymx1SEljWjczdz09
Meeting ID: 989 1402 7169
Passcode: 123456