INDUSTRIAL ORGANIZATION II: 14.272
[M/W 9:00-10:30, E51-361, Recitation TBA]

This course is a continuation of 14.271. It covers theoretical and empirical research related to the design and
effects of government policies focused on the structure, behavior and performance of firms and markets. The
emphasis is on antitrust, economic regulation, deregulation, and privatization policies and on the behavior of
the regulatory and political institutions involved in formulating and implementing these policies. The
following four books will be on reserve in Dewey; You should have acquired Tirole for 14.271. The two
Laffont & Tirole books are likely to be of particular value, and their purchase is recommended. They are
available at the MIT Press Bookstore on Main Street (not the Coop). Ask for an MIT student discount. The
Armstrong, Cowing and Vickers book is useful, but is getting dated.

been purchased for 14.271).

Press, 1993. (Laffont & Tirole)

&Tirole II)

M. Armstrong, S. Cowan, and J. Vickers, *Regulatory Reform -- Economic Analysis and British

In the list that follows, starred items are required, and copies should be on reserve. The list's length reflects
an attempt to provide a useful bibliography for further study and research.

Readings access: Many required readings can be downloaded from the indicated web sites, including
JSTOR and other e-journal websites accessible through MIT's library VERA system using a computer
connected to the MIT system. For more information, see the MIT library's VERA website:
http://river.mit.edu:591/mitlibweb/FMPro?-db=RS_Items.fp3&-Lay=web&-
format=ro_search.htm&-findany (If this or other links do not work when you click on them, try
pasting the URL into your browser window.) Individual access to current AEA journals (*American
Economic Review, Journal of Economic Perspectives, and Journal of Economic Literature*) is available on-
line at e-AEA for members. Student (junior) membership rates are $31 per year (you get all 3 journals). See
http://www.aeaweb.org. The *RAND Journal* has a 4-year student subscription rate of $60 (add $20 to

A 14.272 readings packet containing non-downloadable required readings for which copyright fees are
reasonable is available for purchase at Graphic Arts in the basement of E52.

Grading in this course will be based on in-class mid-semester and final examinations, and a referee report on
an assigned paper. Several problem sets will be distributed during the term, but these will not directly affect
grades.
1. ANTITRUST: OVERVIEW


2. ANTITRUST: HORIZONTAL MERGERS AND MONOPOLIZATION

A. Theory and Evidence


**B. Horizontal Merger Policy**


* U.S. DOJ Complaint Regarding Proposed Merger of WorldCom and Sprint.  
http://www.usdoj.gov/atr/cases/f5000/5051.htm


**3. ANTITRUST: VERTICAL INTEGRATION, VERTICAL CONTRACTS AND MARKET POWER**

* Tirole, Chapter 4 (including supplementary section).

http://links.jstor.org/sici?sici=0002-8282%28198305%2973%3C267%3ARRC%3E2.0.CO%3B2-G


**S.C. Salop and R. Craig Romaine, “Preserving Monopoly: Economic Analysis, Legal Standards and Microsoft” George Mason Law Review, 7(3), September 1999, 617-671**

Microsoft case (U.S. DOJ site): \nhttp://www.usdoj.gov/atr/cases/ms_index.htm

**4. THE POLITICAL ECONOMY OF REGULATION**

Armstrong et al, Chapter 1.


http://links.jstor.org/sici?sici=0005-8556%28197121%292%3C3%3ATTOER%3E2.0.CO%3B2-N


http://lucia.catchword.com/v1=1443328/c1=14/nw=1/rpsv/catchword/mitpress/00335533/v114n4/s10/p1437


5. GOVERNMENT VERSUS PRIVATE OWNERSHIP


http://lucia.catchword.com/v1=1443328/cl=14/nw=1/rpsv/catchword/mitpress/00335533/v114n4/s4/p1193


Laffont & J. Tirole, Chapter 17.


6. EFFICIENT REGULATION OF MONOPOLIES

A. The Natural Monopoly Problem


B. Optimal Pricing with Full Information


* Laffont and Tirole (1993), pages 19-34.

* Laffont and Tirole (II), pages 60-66, 73-80.


C. **Rate of Return Regulation**


D. **Institutions and Mechanisms for Asymmetric Information**


* Laffont & Tirole, Chapters 1 & 2; Chapters 3 & 9 are recommended.

* Laffont & Tirole (II), pages 37-60.


Armstrong et al, Chapters 2 & 3 and Section 4.4.


T. Lewis & D. Sappington, "Regulating a Monopolist with Unknown Demand," *American Economic Review*, 78 (December 1988), 986-998. (JSTOR)


E. **Price Caps and Related Regimes**

* Laffont & Tirole II, pages 66-73, 84-96

Armstrong et al, Chapter 6.


Armstrong et. al., Chapter 9.

F. **Auction-Based Approaches**


Laffont & Tirole, Chapters 7 and 8.


7. **THE EFFECTS OF ECONOMIC REGULATION AND Deregulation**

A. **Overview**


B. **Access Pricing and Competition in Telecommunications**

* Laffont & Tirole II, Chapter 1, Chapter 2 (pp. 80-84), Chapter 3, Chapter 4, Chapter 7 [The rest of the book is recommended]


  
  http://links.jstor.org/sici?sici=1057-8641%281997%291997%3C1%3AVTEORO%3E2.0.CO%3B2-T

Armstrong et al., Ch. 7.


Laffont & Tirole, Chapters 5 and 6.


C. Regulation and Deregulation in Electricity


* S. Peltzman, "George Stigler's Contribution to the Analysis of Economic Regulation." *Journal of Political Economy*, October 1993, pp. 819-832. (JSTOR) 
  http://links.jstor.org/sici?sici=0022-3808%28199310%29101%3C818%3AGSTOTE%3E2.0.CO%3B2-3


  http://links.jstor.org/sici?sici=0022-3808%28199210%29100%3C929%3ACITBES%3E2.0.CO%3B2-7

  http://web.mit.edu/pjoskow/www


### E. Cable Television


F. Transportation


G. Banking Regulation


**H. Other**

