INDUSTRIAL ORGANIZATION II: 14.272
[M/W 9:00-10:30, E52-175, F 9:00-10:30, E51-395]

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.


In the list that follows, starred items are required, and copies should be on reserve. Many of the starred readings can also be downloaded from the indicated web sites, including JSTOR. Others are also available for purchase at Graphic Arts in the 14.272 readings packet. The list's length reflects an attempt to provide a useful bibliography for further study and research.

Grading in this course will be based on in-class mid-semester and final examinations. 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](http://www.usdoj.gov/atr/cases/f5000/5051.htm)


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

* Tirole, Chapter 4 (including supplementary section).


For links related to Microsoft case:
http://www.stern.nyu.edu/networks/ms/ (Professor Nicholas Economides)
http://www.NetEcon.com/robert_e_hall_main_page.htm (Professor Robert Hall)
http://www.usdoj.gov/atr/cases/ms_index.htm (U.S. DOJ site)
http://208.29.31.65/nera/ (National Economic Research Associates)

### 4. THE POLITICAL ECONOMY OF REGULATION


Armstrong et al, Chapter 1.


5. GOVERNMENT VERSUS PRIVATE OWNERSHIP


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]


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)


### E. Cable Television


F. Transportation


G. Banking Regulation

