Overview:

Industrial organization deals with the structure, management, and performance of firms and markets. It is concerned with firm behaviour and strategy, the implications of firm behaviour for economic efficiency, and the role public policy plays in promoting efficiency.

We will be studying theories of the firm and standard models of firm behaviour, analysing such market phenomena as price discrimination, product differentiation, price wars, mergers, vertical relationships between firms, entry and exit, and research and development. The emphasis will be on theoretical approaches, using non-cooperative game theory.

Prerequisites:

A solid background in microeconomics and game theory is required. If you are not familiar with concepts such as repeated games and perfect Bayesian equilibrium, please come and talk to me.

Readings:

The required text for the course is:


In addition, lectures will be based on material from journal articles. In the reading list below, asterisks indicate required readings. As a University of Melbourne student, you can access most of the journals through the library’s electronic databases. You can also find the journals in the library itself.
I will distribute lecture notes on every topic we cover. These notes are not meant to be comprehensive. They are meant to be taken as a guide in your studying. Hence, you are encouraged to be prepared to take notes in class, and if you miss class, I strongly encourage you to get the lecture notes from one of your classmates.

**Other useful sources:**


**Grading:**

Grades will be based on a take-home midterm exam (20%), a research proposal (20%), and a cumulative final exam (60%). In addition, I will be giving out 3-4 problem sets that will not be graded. The questions on the midterm and final examinations will be similar to those in the problem sets, so I strongly encourage you to work on the problem sets and understand them as fully as possible.

The purpose of the research proposal is to have you start thinking critically about the material we will cover. It is supposed to be 4 pages in length (approximately 1000 words) and should develop an original idea that extends the literature on one of the topics we will cover. An initial one-page report is due on October 7th. The final report is due on the last day of class, October 23rd. Each student is expected to consult me at least once during the semester about their research idea.

For the final exam, the Faculty requires that you are available for the entire examination period. Supplementary exams will not be provided in cases of absence during the examination period, unless the absence is due to serious illness or other serious circumstances.
Course Schedule

This is a tentative schedule. There can be changes made to this schedule during the semester, which I will announce in class and post on the subject website. Note that asterisks indicate required readings.

1. Introduction and Background


Tirole, ch. 11 (review).

2. Monopoly: Introduction

* Tirole, ch. 1 (especially pp. 65-72).

3. Monopoly: Price Discrimination

* Tirole, ch. 3.


4. Short-Run Price Competition

* Tirole, ch. 5.


5. Horizontal Mergers


6. Product Differentiation

* Tirole, ch. 2 (sections 2.1 and 2.2) and ch. 7 (especially pp. 277-285 and 296-300).


7. Dynamic Price Competition: Repeated Games and Collusion

* Tirole, ch. 6 (especially pp. 239-264 and 268-269).


8. Dynamic Price Competition: Entry, Exit, and Predation

* Tirole, ch. 8 and 9.


9. Research and Development, and the Diffusion of Innovations

* Tirole, ch. 10 (especially pp. 389-404).


**10. Switching Costs, Network Effects, and Compatibility**

* Tirole, ch. 10 (especially pp. 404-414).


11. The Theory of the Firm: Incomplete Contracts, Ownership, and Vertical Integration

* Tirole, Introduction (especially pp. 15-51).


12. Vertical Mergers and Vertical Organization of Industries (tentative)


