Mount Holyoke College
Econ 307: Seminar in Industrial Organization
Spring Semester 2011
Tuesday and Thursday, 1:15-2:30 pm, Clapp Laboratory 218

Contact Information:
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Office Hours: Tuesday 2:30-4:30 and by appointment

Course objective:
In this course we learn theoretical models and analyze empirical studies of the economic performance of industries, focusing on case studies of the food and beverage industries. Approaches studied include game theory and pricing models. Topics include advertising, research and development, and relationships between government and business such as regulation and antitrust laws.

Does not meet a distribution requirement

Prereq. jr, sr, Economics 212

Readings:
There are two required readings, both of which are available at Odyssey Bookstore and available for reference in the library. The textbook is Industrial Organization: Theory and Applications by Oz Shy. This book will provide a guide for the math that will be used during the class and will be an excellent reference for those who go on to graduate school or work in economics.

The required supplemental reading is The U.S. Brewing Industry: Data and Economic Analysis by Tremblay and Tremblay. This book studies the brewing industry over time using the tools we learn in this class.

There is a free Industrial Organization text online that might be useful for reference: Industrial Organization: A Contract Based Approach by Nicolas Boccard.

We will have readings from The Antitrust Revolution: Economics, Competition, and Policy by Kowka and White (5th ed). Required readings will be posted on Ella and a copy of the book is in the library.

Additional readings will be posted on Ella.

Course Requirements:
The course requirements include 1 midterm exam, a final exam, six homework assignments, and a final paper. On days that “Cases” are assigned you will be required to write a 5 minute summary (in class with no notes) at the beginning of the class period. If you arrive late to class you will receive a 0 on that summary. Assignments are due at the beginning of each class and no late work
will be accepted. If you can not attend class on the day that a homework is due, you must submit it earlier.

Working with others on homework is allowed and encouraged, however, each student must write up her own version of a solution, and everyone who collaborated must be acknowledged at the end of the homework. Turning in identical homework will result in a zero for both parties. Similar homework will receive a warning the first time and a zero each additional time.

Attendance for this class, while not mandatory, is highly recommended.

Paper:
Throughout the course you will turn in four 2-3 page papers. Each paper will study different aspects of an industry of your choice and be worth 5% of your final course grade. The culminating term paper (10-12 pages), due on May 3rd, will be a compilation of the short papers and worth another 5% (so your entire paper grade will be worth 25% of your final grade). You should add an introduction and conclusion as well as any transitions necessary to make this a complete industry analysis.

Following the brewing book by Tremblay and Tremblay will be an invaluable resource for types of data to look for as well what data is important and how to evaluate it. You should put together an equivalent (albeit smaller) case study of the industry of your choice.

Paper 1: Historical and Legal analysis of your industry

Go to the US census website and choose a 6 digit NAICS (North American Industry Classification System from 2007) category. In a few sentences, describe the industry you have chosen and how it fits into the larger classification (up to the 2 digit NAICS). Why do you think the industry was classified as it was? Who are the major players in this industry (name actual firms). What is the history of this industry (in terms of market structure, mass producers (see chapter 4 in Tremblay and Tremblay), numbers of firms, international competition etc.)? What is the antitrust and legal history? Provide appropriate citations.

Paper 2: Industry Concentration

Look up your 6 digit classification in the Census Industry Statistics Sampler. How many establishments are there in your 6 digit category versus the 2 digit category? What percentage of sales come from your 6 digit category versus the 2 digit? What percentage of the annual payroll and paid employees come from your 6 digit category versus the 2 digit? Use this information to write about the following issues.

Type a few paragraphs on the importance (for legal and welfare purposes) of calculating industry concentration for your industry. In particular, what is needed to calculate the index and what do we learn from it, either over time or in a particular year? (I would recommend studying chapter 3 in Tremblay and Tremblay to help your analysis.)

With a little bit of research (please cite) can you find enough information to calculate the four-firm concentration ratio (CR4) for your industry? What about the Herfindahl-Hirschman index (HHI)?
If you do not have enough information to calculate these, what do you expect the indexes to look like? Why? How do you think they have changed over time and why? How does the way you define ‘industry’ affect your ability to answer this question?

Paper 3: Advertising and Research and Development

For your industry, what can you determine about how much money is spent (by individual firms, throughout the industry, etc.) on advertising and research and development? How do these numbers compare to industry revenue? What type of advertising strategies do these firms use? What is your take on the need for patents or R&D incentives in your industry?

Paper 4: Model

Given everything you have learned about your industry, what type of model that we have learned in class seems most appropriate to use? Describe the model and why it is most useful. What implications of the model are interesting to consider for your industry?

**Accommodations:**
Accommodations will only be made for students who have formally requested it through Disability Services and presented written material to me during the first 3 weeks of class.

**Grading Scale:**
- Homework: 25%
- Midterm: 25%
- Final Exam: 20%
- Paper: 25%
- Case Reviews: 5%

92%-100% A
90%-91% A-
88%-89% B+
82%-87% B
80%-81% B-
78%-79% C+
72%-77% C
70%-71% C-
68%-69% D+
60%-67% D
50%-59% D-
-49% F
Tentative Course Schedule (Will be updated–Check regularly):

1/27 Introduction to IO
   · Chapter 1 Oz Shy

2/1 Theory of the Firm
   · Chapter 3 Oz Shy
   · Horizontal Structure: The Economic and Legal Context by Kwoka and White (Ella)

2/3 Market Structures: Perfect Competition
   · Chapter 4 in Oz Shy
   · Case 6: Efficiencies and High Concentration: Heinz Proposes to Acquire Beech-Nut (2001), Baker. (Ella)
   Homework 1 due

2/8 Market Structures: Perfect Competition; History of Brewing Industry
   · Chapter 4 in Oz Shy
   · Chapter 1 in Tremblay and Tremblay

2/10 Market Structures: Monopoly; Patents
   · Chapter 5 in Oz Shy

2/15 Market Structures: Monopoly; Demand and Cost Estimates
   · Chapter 5 in Oz Shy
   · Chapter 2 in Tremblay and Tremblay

2/17 Oligopoly, Bertrand and Cournot Competition
   · Chapter 6 in Oz Shy
   Homework 2 due

2/22 Oligopoly, Bertrand and Cournot Competition; Industry Concentration
   · Chapter 6 in Oz Shy
   · Chapter 3 in Tremblay and Tremblay
   Paper 1 due

2/24 Market Structures: Monopolistic Competition
   · Chapter 7 in Oz Shy

3/1 Market Structures: Monopolistic Competition, Linear City; Mass Producers
   · Chapter 7 in Oz Shy
   · Chapter 4 in Tremblay and Tremblay

3/3 Catch up
   · Case 4: Sky Wars: The Attempted Merger of EchoStar and DirecTV (2002), Gilbert and Ratliff (Ella)
   Homework 3 due

3/8 Midterm
· Horizontal Practices: The Economic and Legal Context by Kwoka and White (Ella)

3/15 **Spring Break**

3/17 **Spring Break**

3/22 Concentration and Mergers
· Chapter 8 in Oz Shy
· Chapter 5 in Tremblay and Tremblay

**Paper 2 due**

3/24 Concentration and Mergers
· Chapter 8 in Oz Shy
· Vertical and Related Market Issues: The Economic and Legal Context by Kwoka and White (Ella)

**Homework 4 due**

3/29 Mergers; Price Discrimination
· Chapter 13 in Oz Shy
· Chapter 6 in Tremblay and Tremblay

3/31 Price Discrimination; Judo Economics
· Chapter 13 in Oz Shy

4/5 Research and Development
· Chapter 9 in Oz Shy
· Chapter 7 in Tremblay and Tremblay

4/7 Movie

**Homework 5 due**

4/12 Movie: Beer Wars (finish); Research and Development
· Chapter 9 in Oz Shy
· Chapter 8 in Tremblay and Tremblay

4/14 Advertising
· Chapter 11 in Oz Shy

4/19 Advertising
· Chapter 11 in Oz Shy
· Chapter 9 in Tremblay and Tremblay

**Paper 3 due**

4/21 Information
· Chapter 15 in Oz Shy

**Homework 6 due**
4/26  Information
   · Chapter 15 in Oz Shy
   · Chapter 10 in Tremblay and Tremblay
   **Paper 4 due**

4/28  Walmart
     *NBER Working Paper No. 13783.*

5/3  Walmart; Ohio Bidding
    Movie
   · Case 12: Bidding, Bid Rigging, and School Milk Prices: Ohio v. Trauth (1994), Porter and Zona (Ella)
   **Paper Due**

   **Self Scheduled Final Exam**