

ECON 46100

Industrial Organization

Spring 2016

Instructor: Joe Mazur
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Office Hours: Monday/Wednesday, 1:15pm to 2:45pm
and by appointment

Class Location: RAWL 1011
Class Times: (Section 001) Monday/Wednesday/Friday, 8:30am - 9:20am
(Section 002) Monday/Wednesday/Friday, 9:30am - 10:20am

Teaching Assistant: Andrew Steckley
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1 Overview

This course will examine the determinants of market and firm structure, firm conduct, and market performance in imperfectly competitive markets. Emphasis is placed on real-world industries and the models of firm decision-making that economists use to analyze those industries. For further detail on course content, see the course schedule at the end of this document. This is a 3-credit-hour course, which means we will have about 3 hours per week of class. You should expect to spend, on average, another 6 hours per week outside of class on reading, preparation, homework, and review.¹

¹Quoting from the Purdue website, “each in-class hour of college work should require two hours of preparation or other outside work.” Source here: https://www.purdue.edu/registrar/documents/forms/Credit_Hr_Guidelines.pdf

1.1 Academic Integrity

I do not tolerate academic dishonesty, and neither does Purdue University:

“Purdue prohibits ‘dishonesty in connection with any University activity. Cheating, plagiarism, or knowingly furnishing false information to the University are examples of dishonesty’ (Section B.2.a, Code of Student Conduct). Furthermore, the University Senate has stipulated that ‘the commitment of acts of cheating, lying, and deceit in any of their diverse forms (such as the use of substitutes for taking examinations, the use of illegal cribs, plagiarism, and copying during examinations) is dishonest and must not be tolerated. Moreover, knowingly to aid and abet, directly or indirectly, other parties in committing dishonest acts is in itself dishonest’ (University Senate Document 72-18, December 15, 1972)”

The paragraph above is an excerpt from Purdue’s student guide to academic integrity, entitled *Academic Integrity: A Guide for Students*. The full guide provides other examples of dishonesty, offers tips on how to avoid it, and explains its consequences. Please review it here:

https://www.purdue.edu/odos/osrr/resources/documents/academic_integrity.html

Academic dishonesty of the kind described in that guide will be reported to the Dean of Students, and is grounds for **failing the course**. If you find yourself contemplating cheating, plagiarism, or any other form of academic dishonesty, either for your benefit or for the benefit of someone else, please come to me first. Concern over your (or anyone else’s) performance in the class, forgetting an assignment, or trying to improve your exam grade are not valid reasons for cheating. Do your own work, and do your best.

1.2 Harassment

I do not tolerate harassment of any kind, and neither does Purdue University:

“Purdue University is committed to maintaining an environment that recognizes the inherent worth and dignity of every person; fosters tolerance, sensitivity, understanding and mutual respect; and encourages its members to strive to reach their potential. ... Harassment in the workplace or the educational environment is unacceptable conduct and will not be tolerated. Purdue University is committed to maintaining an educational and work climate for faculty, staff and students that is positive and free from all forms of Harassment. This policy addresses Harassment in all forms, including Harassment toward individuals with legally protected status for reasons of race, gender, religion, color, age, national origin or ancestry, genetic information or disability and Harassment toward individuals for other reasons such as sexual orientation, gender identity, gender expression, marital status or parental status.”

The paragraph above is an excerpt from Purdue’s Anti-Harassment Policy. The full policy provides examples of harassment and outlines its associated procedures and consequences. Please review it here:

<http://www.purdue.edu/policies/ethics/iiia5.html>

Conduct of the kind outlined in that policy, including but not limited to “conduct towards another person or identifiable group of persons that has the purpose or effect of creating an intimidating or hostile educational environment,” will be immediately reported and is subject to disciplinary or remedial action, including **expulsion from the University**.

Your first assignment as part of this course is to read the guide to academic integrity, the anti-harassment policy, and the first five pages of this syllabus in their entirety. When you have done so, sign and date pages 3 and 5, and return this page to me.

By signing this document, I certify that I have read Purdue University's *Academic Integrity: A Guide for Students* and Purdue University's Anti-Harassment Policy at the aforementioned links. I further certify that I have read the first five pages of this syllabus, including the contents of this page. I understand that any act of academic dishonesty is grounds for failing this course. I further understand that any act of harassment is subject to disciplinary or remedial action, which may include expulsion from the University. Finally, I promise to conduct myself with the utmost integrity and respect for others during this course, and to immediately report to the instructor any act of dishonesty or harassment that I witness, in this class or any other at Purdue, for the remainder of this semester.

Name

Date

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This page serves as a reminder of your commitment to integrity and respect during my course. Please sign and date this page.

By signing this document, I certify that I have read Purdue University's *Academic Integrity: A Guide for Students* and Purdue University's Anti-Harassment Policy at the aforementioned links. I further certify that I have read the first five pages of this syllabus, including the contents of this page. I understand that any act of academic dishonesty is grounds for failing this course. I further understand that any act of harassment is subject to disciplinary or remedial action, which may include expulsion from the University. Finally, I promise to conduct myself with the utmost integrity and respect for others during this course, and to immediately report to the instructor any act of dishonesty or harassment that I witness, in this class or any other at Purdue, for the remainder of this semester.

Name

Date

1.3 Prerequisites

You should understand the standard economic models of perfect competition and monopoly. Your familiarity with mathematics should include high-school algebra (solving systems of linear equations, graphing simple functions, etc.). The most advanced mathematics I use in the course is Calculus, specifically differentiation of polynomial functions to find minimum or maximum points. A 12-page appendix at the end of the primary textbook² reviews the mathematics used in the course. You should have a fluent command of spoken and written English.

1.4 Course Website

There is a website for the course on Blackboard Learn. I will post electronic copies of the syllabus, lecture slides, and other resources there. I may also use the website for quizzes or surveys on occasion. You can access the course website by logging in here:

<https://mycourses.purdue.edu/>

1.5 Course Textbooks

There are two textbooks required for this course:

1. *Industrial Organization in Context* by Stephen Martin, published by Oxford University Press (2010).
2. *The Structure of American Industry*, 12th Edition, edited by James Brock, published by Waveland Press (2013).

In addition to the text, I may occasionally assign readings from the popular press (e.g. *NY Times*, *Wall Street Journal*, etc.). Any such readings will be available for free through the Purdue University Library, and I will provide library links in advance via Blackboard.

1.6 Etiquette

I value your presence in my class, and I want your classmates to feel the same way. You are welcome to eat/drink during class as long as food/drink is permitted in the classroom and you do not disrupt or distract others by doing so. Please refrain from smoking during or immediately before my class. Smoking is prohibited on the West Lafayette campus, except in designated smoking areas.³ Please silence your cell phones, pagers, or other electronic devices during class. You are, of course, welcome to take notes on your laptop, tablet, etc.

²That is, Appendix II of *Industrial Organization in Context* by Stephen Martin

³Map available here: <http://www.purdue.edu/physicalfacilities/smokefree/map.htm>

2 Assessment

2.1 Participation (20%)

Participation in class is required, will be recorded, and accounts for 20% of the course grade. Students should use the seat they occupy during the second class meeting throughout the semester. As indicated in the class schedule at the end of this document, many class meetings will include discussion of reading assignments from the texts. You should read each assigned chapter/section before the class meeting in which it will be discussed. Throughout the semester, I will call on **all** students, including volunteers and non-volunteers. Responses will be the basis of the participation grade. Any quizzes or surveys that I indicate as graded during the semester will also contribute to the participation grade.

Attendance will be recorded, and a minimum level of attendance is required. Any student with more than 12 absences will receive an F for the course. However, I am an economist, and I understand that students must optimize their time according to their own priorities, whatever they may be. I therefore understand that you may occasionally find it “optimal” to skip my class, and I will not directly penalize such behavior. That said, recognize that skipping class is done at your own risk. If you are not present when I call on you, your participation grade will suffer. Finally, if you are absent from class, even if you have a very good reason, it is your responsibility to make arrangements with a student who has attended the class so you are familiar with the material you have missed.

2.2 Exams (80%)

There will be two exams in this course. The midterm exam will account for 30% of the course grade. The final exam will be cumulative, and it will account for 50% of the course grade. Exams will consist of essay questions based on lecture material, the textbooks, and problems based on the economic models covered in class. I will post sample questions and answers on the course website before each exam. I do not grade exams or the course on a curve. I do not release end-of-course grades before they are posted by the Registrar. Federal regulations prohibit me from telling you your grade by email.

2.3 Grading

I grade exams on a scale of 0-100%. At the end of the course, I compute a final percentage grade based on the weights given above and then translate those grades into letter grades according to the following scale (where “g” indicates your final percentage grade):

$97\% \leq g$		A+
$93\% \leq g < 97\%$		A
$90\% \leq g < 93\%$		A-
$87\% \leq g < 90\%$		B+
$83\% \leq g < 87\%$		B
$80\% \leq g < 83\%$		B-
$77\% \leq g < 80\%$		C+
$73\% \leq g < 77\%$		C
$70\% \leq g < 73\%$		C-
$67\% \leq g < 70\%$		D+
$63\% \leq g < 67\%$		D
$60\% \leq g < 63\%$		D-
$g < 60\%$		F

Class Schedule, Page 1

Subject to change at any time for any reason.

Week	Class	Day	Date	Class Content	Readings to Discuss
1	1	Mon.	1/11	introduction; history of I.O.	
	2	Wed.	1/13	types of markets	
	3	Fri.	1/15	cost curves 1	IOC Box: Cost Curves (pp. 23-24)
2	–	Mon.	1/18	MLK JR. DAY (No Classes)	
	4	Wed.	1/20	cost curves 2	
	5	Fri.	1/22	demand	SAI Chapter 1: Agriculture
3	6	Mon.	1/25	competition; monopoly	
	7	Wed.	1/27	quantity-setting oligopoly	
	8	Fri.	1/29	price-setting oligopoly	
4	9	Mon.	2/1	contestability; spatial duopoly	
	10	Wed.	2/3	spatial (horiz. & vert.) duopoly	IOC Box: Canadian Fur Trade (pp. 102-103)
	11	Fri.	2/5	concentration	
5	12	Mon.	2/8	experimental evidence	IOC Box: Bulletin-Board Market (pp. 51-52)
	13	Wed.	2/10	collusion theory	SAI Chapter 4: Cigarettes
	14	Fri.	2/12	collusion theory	IOC Box: Taxicab Price War (p. 180) IOC Box: Bleacher Collusion (pp. 187-188)
6	15	Mon.	2/15	collusion evidence	IOC 6.5: Cartels in Practice (pp. 193-201)
	16	Wed.	2/17	market leadership	SAI Chapter 9: Airlines
	17	Fri.	2/19	market leadership	IOC Box: Xerox (pp. 228-229) IOC Box: National Cash Register (p. 239) IOC Box: Chewing Tobacco (pp. 240-241) IOC Box: Standard Oil (p. 243)
7	18	Mon.	2/22	market leadership	IOC Box: Alcoa (pp. 218-219) IOC Box: American Express (pp. 247-248) IOC Box: Chicago Pasta (pp. 253-254)
	19	Wed.	2/24	price discrimination	SAI Chapter 11: Health Care
	20	Fri.	2/26	price discrimination	IOC Box: Fulton Fish Market (p. 147) IOC Box: Bazaar (p. 263) IOC Box: Railroad Rate Discrimination (pp. 268-269)

Class Schedule, Page 2

Subject to change at any time for any reason.

Week	Class	Day	Date	Class Content	Prepare in Advance
8	21	Mon.	2/29	MIDTERM EXAM	IOC cc. 1-9 and SAI cc. 1, 4, 9, and 11
	22	Wed.	3/2	market structure	SAI Chapter 5: Beer
	23	Fri.	3/4	market structure	IOC Box: Pinmaking (pp. 132-134)
9	24	Mon.	3/7	market structure	IOC Box: Ford (p. 135)
	25	Wed.	3/9	RECORDED LECTURE (No Class)	SAI Chapter 6: Automobiles
	26	Fri.	3/11	market structure	IOC Box: Auto Industry Shakeout (pp. 328-329)
10	–	Mon.	3/14	SPRING BREAK (No Classes)	IOC Box: Format Wars (pp. 308-309)
	–	Wed.	3/16	SPRING BREAK (No Classes)	
	–	Fri.	3/18	SPRING BREAK (No Classes)	
11	27	Mon.	3/21	platforms	
	28	Wed.	3/23	firm structure	IOC Box: Franchise Management (pp. 56-57)
					IOC Box: Problem before Executives (pp. 360-361)
					IOC Box: Trade Secrets (p. 366)
					IOC Box: Body by Fisher (p. 370)
	29	Fri.	3/25	firm structure	
12	30	Mon.	3/28	interfirm contracts	SAI Chapter 3: Electricity
	31	Wed.	3/30	interfirm contracts	IOC Box: Exclusionary Bundling (p. 257)
					IOC Box: Vertical Exclusion (pp. 413-414)
					IOC Box: Tying (p. 417)
					IOC Box: Net Book Agreement (pp. 419-420)
	32	Fri.	4/1	interfirm contracts	
13	33	Mon.	4/4	mergers	

Class Schedule, Page 3

Subject to change at any time for any reason.

Week	Class	Day	Date	Class Content	Prepare in Advance
	34	Wed.	4/6	mergers	IOC Box: Diversification & Divestiture (pp. 388-389) IOC Box: Merger for Market Power (p. 396) IOC Box: Mergers and Innovation (p. 402)
	35	Fri.	4/8	RECORDED LECTURE (No Class)	
14	36	Mon.	4/11	mergers	SAI Chapter 7: Music Recording IOC Box: Sapolio (pp. 438-439)
	37	Wed.	4/13	advertising and information	
	38	Fri.	4/15	advertising and information	
15	39	Mon.	4/18	innovation	SAI Chapter 2: Petroleum IOC Box: The Art Biz (pp. 455-456) IOC Box: Cotton Gin (p. 457) IOC Box: Serendipity (pp. 457-458) IOC Box: Sailing Ship Effect (pp. 464-465) IOC Box: Steamboat Spillovers (p. 471)
	40	Wed.	4/20	innovation	
	41	Fri.	4/22	innovation	SAI Chapter 8: Telecommunications IOC Box: Cooperative Auto Pollution Control (pp. 492-493) IOC Box: Two Patents (pp. 499-500) IOC Box: Poultry Innovation (pp. 503-504) IOC Box: Industrial Secrets (p. 509) IOC Box: Just a Click Away (pp. 510-511) IOC Box: Commuter Aircraft (pp. 537-538) IOC Box: Cotton Fabrics (pp. 566-567)
16	42	Mon.	4/25	innovation	
	43	Wed.	4/27	innovation	
	44	Fri.	4/29	international trade	
17	–	Fri.	5/6	FINAL EXAM 8:00 A.M. to 10:00 A.M.	COMPREHENSIVE; BOTH SECTIONS COMBINED in KRAN G016