

Industrial Economics

Instructors:

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Summary

This course provides the student with a basic understanding of the building blocks of Industrial Organization models, which are the modelling tools commonly used in modern economic analysis of markets. Specifically, the course focuses on the study of oligopoly markets, leaving some time to deal with some selected topics such as product differentiation and R&D competition and cooperation.

Results:

- To be familiar with Industrial Organization Theory that allows the student to understand more sophisticated models, as well as implications of public policies
- Being able to show the acquired knowledge and abilities in exams

Methodology:

Students are expected to attend all lectures and practical sessions. Additionally, students must devote a considerable amount of time to personal study, as well as to working out the problem sets that will be distributed. Solutions to the problem sets as well as some extensions will be discussed.

Grading:

The subject is shared with an external professor (to be determined) who is teaching 20% of the subject, therefore the below grading corresponds to the remaining 80%.

Problem sets: 3 points

Final exam: 7 points

Passing of the final exam is required to pass the subject

Syllabus

Chapter 1. Introduction

Markets and Strategies
Market power and welfare
Tools

BP 1, 2, 3
Cabral 2, 3, 9
CW 1, 2, 15

Chapter 2. Monopoly

Monopolist equilibrium and welfare loss
Price discrimination

BP 2, 8
Cabral 5, 10
CW 4, 5
Tirole 1, 3

Chapter 3. Basic Models in Oligopoly

Bertrand
Cournot
Repeated interaction

BP 3
Cabral 7, 8
CW 8, 10
Tirole 5, 6

Chapter 4. Dynamic Models in Oligopoly

Sequential choice
Endogenous number of firms
Entry deterrence

BP 4, 16
Cabral 15
CW 13, 14
Tirole 8

Chapter 5. Horizontal Product Differentiation

Introduction to product differentiation
The representative consumer approach
The address approach

BP 3, 5
Cabral 12, 13
CW 11
Tirole 7

Chapter 6. Vertical Product Differentiation

The Mussa-Rosen Model
The Gabszewicz-Thisse Model

BP 5
Cabral 12
CW 11
Tirole 7

Chapter 7. Long-run Competition: Innovation

Market structure and incentives to innovate
Innovation and market structure
Competition and cooperation in R&D

BP 18
Cabral 16
CW 18
Tirole 10

Chapter 8. The Strategic Value of Commitment

Strategic complements and substitutes: Cats, Dogs, and the Lean and Hungry Look.
Strategic commitments in: International markets, R&D investments and
Managerial incentives

BP 16
CW 15, 16
Tirole 8

REFERENCES

(BP) Belleflamme, P. and M. Peitz. 2010. Industrial Organization: Markets and Strategies. Cambridge University Press, UK.

(Cabral) Cabral, L. 2000. Introduction to Industrial Organization. The MIT Press

(CW) Church, J. and R. Ware. 2000. Industrial Organization. A Strategic Approach. Irwin McGraw-Hill

(Tirole) Tirole, J. 1988. The Theory of Industrial Organization. The MIT Press