

## Industrial Economics – First Semester

This course looks at aspects of industrial economic analysis including industrial organisation and economic regulation. The first part of the course covers industrial organisation and deals with links between the structure, conduct and performance of economic markets in an industrial economy. Topics include: industrial concentration, oligopoly theory, product differentiation, advertising and technical progress. The second part of the course covers economic regulation including: natural monopolies, first and second best pricing, privatization and regulation, price-capping and controls on rate of return. This part of the course also considers case studies of regulated/privatised industries including telecoms, energy markets and other regulated markets depending on the time available. This part of the course will occupy most of the second semester.

### Course Details – First Semester

This part of the course consists of two lectures a week (total 17 hours) plus four/five classes. The classes will start in about the 4<sup>th</sup> week of the semester. The last two topics will be dealt with at the start of the Spring Semester.

### SYLLABUS

#### *Introduction*

The structure, conduct, performance framework. Schools of thought: the Harvard, Chicago and Austrian Schools. Elements of market structure: market concentration, entry barriers, vertical restraints.

#### *Entry and Entry Deterrence*

Bain's 'Barriers to New Competition'. Strategic entry deterrence: excess capacity, product proliferation and other ways to deter entry. Case study: freezer exclusivity in the ice cream market.

#### *Oligopoly Price Theory*

Oligopoly theory: Cournot, Stackelberg and Bertrand oligopoly models. Game theory and repeated games. Conditions favouring oligopolistic co-ordination: costs, demand homogeneity, number of firms.

#### *Product Differentiation*

Nature of product differentiation. Models of pricing in the short run. Location models. Monopolistic competition. Welfare issues in the differentiated products case.

#### *Advertising and Competition*

The nature of advertising. Advertising expenditure in the UK. Theories of advertising expenditure: the elasticities approach. The effect of advertising on competition: market structure, entry barriers and market power.

### *Technical Progress*

Nature of technical progress. Invention, innovation and diffusion. Schumpeter's hypotheses: innovation, firm size and monopoly power.

### *Vertical Integration*

Nature and extent of vertical integration. Reasons for vertical integration. Vertical integration and market power.

### *Competition Policy*

UK and EU Competition Policy. The 1998 Competition Act. The 2002 Enterprise Act. Strengths and weaknesses of UK Competition Policy.

### Reading

References will be given out with each topic of the course. The following textbooks will be referred to:-

R. Clarke, Industrial Economics (Oxford: Basil Blackwell, 1985).

P. Ferguson, Industrial Economics: Issues and Perspectives, 2<sup>nd</sup> ed. (London: Macmillan, 1994).

S. Davies and B. Lyons (eds.) Economics of Industrial Organisation (London: Longman, 1989).

D. W. Carlton and J. M. Perloff, Modern Industrial Organization, 4<sup>th</sup> ed. (Reading, Ma: Addison-Wesley, 2005).

Reading for the first lecture is:

- \* Clarke, chapter 1.
- \* Ferguson, chapters 1 and 2.

\* Recommended reading.

### Attendance

Students are expected to attend both lectures and classes on this course. Any material covered in the lectures or classes can be included in the assignments/examination.

### Course Materials

Course materials can be downloaded from the following website:  
[www.rogerclarke.org.uk](http://www.rogerclarke.org.uk)

## Assessment

The course will be assessed by two assignments of max. 2000 words each (30% in total) and a three hour examination at the end of the Spring Semester (70%). The first assignment should be handed in on Monday 8<sup>th</sup> December 2008 and the second on Monday 27<sup>th</sup> April. Essays should be handed in the usual way to the relevant P office.