

By Friday, read Farrell, Shapiro

By Monday, read Pesendorfer, Berry + Waldfogel.

## I.O.

- most of I.O. centers around the idea of market power
- the study of firms in imperfectly competitive markets
- Do firms have market power?
- What do/can they do to acquire it?
- How do they use mkt power?
- What are the implications?

## 272:

- What is the optimal policy response to mkt power
  - How do actual policies compare to ideal?
  - Implications of observed policies.
- Tradeoff between imperfect markets and imperfect government.

- 1] Provide overview (273 goes more into specifics)
- significant research questions
  - methodologies to answer.

- 2] Develop critical assessment skills
- what is convincing? what is unconvincing?

Matching modeling tools to specific applications

- institutions matter

- i.e. cross-industry regressions might not be valid
- becoming a consumer of institutional detail is important for putting questions in their proper context.

I.O. / Empirical: "case studies" / single industry

- might answer questions about an important industry.
- can we generalize our results? By looking at questions in several settings, regularities may begin to emerge.

### Competition

- ex ante perspective - can we prevent mkt. power with policy?
- broad rules, apply to all/most sectors
- implementation not "pure"
- objectives:
  - preference for consumer welfare over total welfare
  - protect competitors, not competition
  - antitrust policy is not necessarily in line with the objectives implied by economic principles

### Horizontal mergers:

- (price fixing / cartels in 271)
- collusion is a problem.
- Theory. Trade-off between market power motives versus efficiency motives

- unilateral
- what is the policy towards mergers?
- How does the evidence fit in with the theory
- can use simulation to predict the effects of mergers.

### Vertical restraints:

- contractuals, integration
- main concern is foreclosure (ie preventing competition downstream)
- Chicago school was opposed to vertical restraints (e.g. Klein, Crawford, Alchian)
- Most of the recent work has been theoretical.

What do we do once we have market power?

- optimal regulation
- monopoly may be the lowest cost way of organizing thing. (natural monopolies)
- full-information - first best
- asymmetric information - constrained efficiency
- How do these things actually get implemented?
  - price caps, access pricing

Is this what we see?

- Observed policies do not necessarily match up with theoretical ideals

◦ political economy - endogeneity of institutions

### Regulatory institutions

- government vs. private ownership
- electricity, telecommunications, cable TV as providing contexts for looking at effects of regulation
- effects on innovation? Dynamic concerns.