



# ECON309

## Industrial Organisation

S1 Day 2015

*Dept of Economics*

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#### **Disclaimer**

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## General Information

Unit convenor and teaching staff

Unit Convenor

Jordi McKenzie

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Credit points

3

Prerequisites

39cp including (6cp at 200 level including (ECON200 or ECON203))

Corequisites

Co-badged status

Unit description

In standard economic theory, markets exist to allocate and distribute a nation's wealth through the process of exchange. The way in which a society organises these markets and the purposes to which the resulting structures are put, cannot be understood without in turn comprehending the way in which industries are organised within that economy, specifically the contractual arrangements that facilitate economic exchange. This unit analyses markets, firms and government as simply three different institutional or governance structures that serve to accomplish given economic objectives. The issue then becomes not which one should be utilised, but which is the most efficient mix. The actual mix chosen depends upon the comparative transaction costs of using each one.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.

Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.

Review and extend foundation models of oligopolistic market structures including Cournot, Bertrand and Stackelberg models of strategic interaction.

Evaluate how firms with market power might use anti-competitive strategies to deter entry and also understand when and why firms might have an incentive to collude with each other.

Recognise the difference between a horizontal and vertical merger and the incentives for firms to merge in each case.

Demonstrate the ability to effectively communicate theories and knowledge of industrial organisation in technical and non-technical language.

## Assessment Tasks

Name	Weighting	Due
<u>Class Test</u>	20%	Week 7
<u>Group Project</u>	20%	Week 12
<u>Final Examination</u>	60%	University Examination Period

### Class Test

Due: **Week 7**

Weighting: **20%**

The class test will be held in (teaching) Week 7. It will consist of 20 multiple choice questions and will be 60 minutes duration (plus 5 minutes reading time). The test will cover material from topics 1-5 (inclusive). Further details about the time and venue will be provided in due course.

Students who do not sit the class test will be awarded a mark of 0, except for cases in which an application for 'Disruption to Studies' has been made and approved. In this event, students will sit a further class test at a time and date decided by the Department of Economics. Students should note that applications for 'Disruption to Studies' are reviewed by a Faculty committee and suspected non-genuine cases will not be granted. Students should also be aware that the further class test will be thoroughly comprehensive of all material taught in topics 1-5.

On successful completion you will be able to:

- Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.
- Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.

## Group Project

Due: **Week 12**

Weighting: **20%**

In Week 3 students will be assigned into groups (5 students or less). Each group will be assigned a business (i.e. firm) and asked to prepare a mock report for the Chairman of the Australian Competition and Consumer Commission (ACCC). The report is to be no more than 1000 words, plus an executive summary of no more than 100 words. The report should include itemised statements on the following: (i) core business description and ownership structure; (ii) competitive environment and market share; (iii) key strategic considerations regarding market behaviour; (iv) history of antitrust and/or potential for anticompetitive behaviour; (v) history and/or scope for mergers.

You are expected to make contact with your fellow group members early in the session. You should arrange to meet at mutually convenient times and formulate a plan to manage the workload. At the end of the project, each member of the group will complete an anonymous 'peer evaluation report' rating the performance of fellow group members. In situations where there is overwhelming evidence of one (or more) group members not contributing equally to the project, mark deductions will be made against the particular group member(s) identified.

No extensions will be granted. Students who have not submitted the group project prior to the deadline will be awarded a mark of 0, except for cases in which an application for Disruption to Studies has been made and approved.

On successful completion you will be able to:

- Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.
- Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.
- Review and extend foundation models of oligopolistic market structures including Cournot, Bertrand and Stackelberg models of strategic interaction.
- Evaluate how firms with market power might use anti-competitive strategies to deter entry and also understand when and why firms might have an incentive to collude with each other.
- Recognise the difference between a horizontal and vertical merger and the incentives for firms to merge in each case.
- Demonstrate the ability to effectively communicate theories and knowledge of industrial organisation in technical and non-technical language.

## Final Examination

Due: **University Examination Period**

Weighting: **60%**

The final examination is of 2 hours duration and will be held in the official Macquarie University examination period. All material covered in the unit is examinable but there will be a bias towards material not covered in the class test, i.e. topics 1-5. The final examination will include both multiple choice and short answer questions. Further details of the structure of the final examination will be provided in due course.

Students who do not sit the final exam will be awarded a mark of 0, except for cases in which an application for 'Disruption to Studies' has been made and approved. In this event, students will sit a further final exam at a time and date decided by the Department of Economics. Students should note that applications for 'Disruption to Studies' are reviewed by a Faculty committee and suspected non-genuine cases will not be granted. Students should also be aware that the further final exam will be thoroughly comprehensive of all material taught in topics 1-11.

On successful completion you will be able to:

- Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.
- Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.
- Review and extend foundation models of oligopolistic market structures including Cournot, Bertrand and Stackelberg models of strategic interaction.
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- Recognise the difference between a horizontal and vertical merger and the incentives for firms to merge in each case.
- Demonstrate the ability to effectively communicate theories and knowledge of industrial organisation in technical and non-technical language.

## Delivery and Resources

Lectures times and locations:

Wednesday 6-9pm; Room W5A T2 Theatre (Evening Stream)

Thursday 3-6pm; Room W5A T1 Theatre (Day Stream)

Please note these are subject to change and students are advised to check <https://timetables.mq.edu.au/2015/> to confirm times and venues.

The teaching format for this class is one 3-hour session per week. This session will typically consist of a 2 hour formal lecture and 1 hour workshop. It is strongly recommended that students attend all lectures and workshops.

Prescribed textbook:

- Pepall, L., D Richards and G. Norman, 2014, *Industrial Organization: Contemporary Theory and Empirical Applications*, 5th Edition, Wiley.

The text is available from the Coop Bookshop and is also available as an e-book.

It is essential that all students have a copy of this textbook. Not owning a copy, or at least not having access to a copy, will seriously disadvantage you in this course. Other textbooks which may also be useful include:

- Church, J. and R. Ware, 2000, *Industrial Organization: A strategic approach*, McGraw-Hill, Boston (This text is available online free of charge at: <http://homepages.ualgary.ca/~jrchurch/page4/page4.html>).
- Cabral, L., 2000, *Introduction to Industrial Organization*, MIT Press, Cambridge.
- Shy, O., 1995, *Industrial Organization*, MIT Press, Cambridge, 1995.
- Waldman, D.E., and Jensen, E., 2013, *Industrial Organization Theory and Practice*, Fourth Edition.

For a more advanced treatment of the material covered in this course you may want to consider the following textbooks:

- Belleflamme, P. and M. Peitz, 2010, *Industrial Organization: Markets and Strategies*, Cambridge University Press, New York.
- Tirole, J. 1988, *The Theory of Industrial Organization*, MIT Press, Cambridge

## Unit Schedule

Week	Topic	Reading*	Workshop content
1	1. Introduction to IO; Microeconomics review	PRN 1, 2	
2	2. Market structure and power; Technology and cost	PRN 3, 4	Topic 1
3	3. Price discrimination	PRN 5, 6	Topic 2
4	4. Product variety and quality	PRN 7	Topic 3
5	5. Bundling and tie-in sales	PRN 8	Topic 4
6	6. Cournot competition; Price competition	PRN 9, 10	Topic 5
7	<i>Class test. No lecture or workshop.</i>		

8	7. Price competition (cont.); Dynamic games	PRN 10, 11	Topic 6
9	8. Entry deterrence and predation; Predatory conduct	PRN 12, 13	Topic 7
10	9. Price fixing, repeated games and antitrust	PRN 14	Topic 8
11	10. Horizontal mergers	PRN 15	Topic 9
12	11. Vertical mergers	PRN 16	Topic 10
13	Review		Topic 11

\* All readings taken from Pepall, Richards, and Norman (PRN), *Industrial Organization 5E*.

## Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy [http://mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://mq.edu.au/policy/docs/academic_honesty/policy.html)

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy [http://mq.edu.au/policy/docs/grievance\\_management/policy.html](http://mq.edu.au/policy/docs/grievance_management/policy.html)

Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](http://www.mq.edu.au/policy/docs/disruption_studies/policy.html) *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: [https://students.mq.edu.au/support/student\\_conduct/](https://students.mq.edu.au/support/student_conduct/)

## Results

Results shown in *iLearn*, or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit [ask.mq.edu.au](http://ask.mq.edu.au).

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study

strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

## IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### Creative and Innovative

Our graduates will also be capable of creative thinking and of creating knowledge. They will be imaginative and open to experience and capable of innovation at work and in the community. We want them to be engaged in applying their critical, creative thinking.

This graduate capability is supported by:

### Learning outcomes

- Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.
- Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.
- Review and extend foundation models of oligopolistic market structures including Cournot, Bertrand and Stackelberg models of strategic interaction.
- Evaluate how firms with market power might use anti-competitive strategies to deter entry and also understand when and why firms might have an incentive to collude with each other.
- Recognise the difference between a horizontal and vertical merger and the incentives for



firms to merge in each case.

- Demonstrate the ability to effectively communicate theories and knowledge of industrial organisation in technical and non-technical language.

## **Assessment tasks**

- Class Test
- Group Project
- Final Examination

## **Discipline Specific Knowledge and Skills**

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

## **Learning outcomes**

- Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.
- Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.
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## **Assessment tasks**

- Class Test
- Group Project

- Final Examination

## Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

This graduate capability is supported by:

### Learning outcomes

- Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.
- Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.
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### Assessment tasks

- Class Test
- Group Project
- Final Examination

## Problem Solving and Research Capability

Our graduates should be capable of researching; of analysing, and interpreting and assessing data and information in various forms; of drawing connections across fields of knowledge; and they should be able to relate their knowledge to complex situations at work or in the world, in order to diagnose and solve problems. We want them to have the confidence to take the initiative in doing so, within an awareness of their own limitations.

This graduate capability is supported by:

## Learning outcomes

- Recognise the relevance of industrial organisation in the contemporary world and the fundamental models of microeconomics needed to develop a deeper understanding of the subject matter.
- Demonstrate knowledge of pricing strategies available to a monopolist as well as other techniques used to capture consumer surplus and enhance profits.
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- Recognise the difference between a horizontal and vertical merger and the incentives for firms to merge in each case.
- Demonstrate the ability to effectively communicate theories and knowledge of industrial organisation in technical and non-technical language.

## Assessment task

- Group Project

## Effective Communication

We want to develop in our students the ability to communicate and convey their views in forms effective with different audiences. We want our graduates to take with them the capability to read, listen, question, gather and evaluate information resources in a variety of formats, assess, write clearly, speak effectively, and to use visual communication and communication technologies as appropriate.

This graduate capability is supported by:

## Learning outcome

- Demonstrate the ability to effectively communicate theories and knowledge of industrial organisation in technical and non-technical language.

## Assessment tasks

- Group Project
- Final Examination

## ECON309 Unit Website

Course material is available on the learning management system (ilearn). The web page for this unit can be found at <https://ilearn.mq.edu.au/login/MQ/>

Students should check this site regularly for announcements, test results and lecture material.

## **Research and Practice**

- This unit gives you practice in applying research findings in your assignments
- This unit gives you opportunities to conduct your own research