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# ECON7400

## International Industry Economics

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### Overview

The course will cover selected topics from Industrial Economics (i.e. Industrial Organization) with special emphasis on real world applications. Case studies will be an important aspect of the course. The course deals mainly with market behaviour of firms and uses tools from game theory to understand the strategic aspects of firm behaviour.

### Goals

After successfully completing this course you should be able to:

- 1 Use microeconomic analysis in an applied fashion.
- 2 Appreciate the role of institutional and country specific factors in industrial economics outcomes.
- 3 Critically analyse industry structure using objective measures

### Tutorials

Tutorials will start at Week 2. Attendance to tutorials is recommended but is not mandatory. Tutorials will be aimed towards assisting with the more technical/mathematical aspects of the course.

### Evaluation

The format of the quizzes, problem set and the final exam will be similar: combination of short answer (true/false questions), technical problems and open-ended questions.

There will be three quizzes to be completed via Blackboard. The amount of time you will have for each quiz might vary and will be announced in due time. The problem set will be a longer quiz and will need to be submitted via Blackboard as well (as a Word or pdf document).

Guidelines regarding the case study can be found later in this syllabus. More information will be provided during the library session.

Note: The information in this syllabus is subject to change. Updates will be posted on Blackboard.

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Semester One 2013  
Mondays: 9.00-11.00

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Office Hours: Thursdays: 15.00-16.00

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### Materials

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Luis Cabral (2000) Introduction to Industrial Organization. MIT Press Cambridge, MA.  
Chapters from other textbooks and journal articles.

### Milestones

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**17 Mar 2013**

Online quiz 1

**14 Apr 2013**

Online quiz 2

**5 May 2013**

Problem Set

**26 May 2013**

Online quiz 3

**26 May 2013**

Case Study

**Examination Week**

Final Exam

### Evaluation

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Online quizzes: 10% x 3

Problem Set: 20%

Case Study 50%

Final Exam 50%

Best 100 out of 150.

<b>Week</b>	<b>Date</b>	<b>Topic</b>
1	25 Feb	Overview & Monopoly Pricing and Price Discrimination
2	4 Mar	Economies of scale and scope
3	11 Mar	Competition and welfare effects
4	18 Mar	Oligopoly and Collusion
5	25 Mar	Asymmetric Information
6	8 Apr	Library Session
7	15 Apr	Search and advertising
8	22 Apr	Network Effects
9	29 Apr	Multi-sided Platforms
10	6 May	Behavioral Industrial Organization
11	13 May	Industrial Policy
12	20 May	Multinational Firms
13	27 May	Review for the final exam

## Tutorial Schedule

Week 1:	No Tutorials
Week 2:	Exercises on Monopoly Pricing
Week 3:	Exercises on Price Discrimination and Economies of Scale
Week 4:	Answers for Online Quiz 1
Week 5:	Exercises on Competition and Oligopoly
Week 6:	Exercises on Asymmetric Information
Week 7:	Answers for Online Quiz 2
Week 8:	Exercises on Search and Advertising
Week 9:	Exercises on Networks and Two-sided Markets
Week 10:	Answers for Problem Set
Week 11:	Exercises on Behavioral Industrial Organization
Week 12:	Exercises on Industrial Policy
Week 13:	Answers for Online Quiz 3

Exercise questions will be posted on Friday every week and the answers will be posted on Blackboard after the last tutorial of the following week.

## Guidelines for the Case Study

### Case Study: Critical analysis of an industry or a company

(worth 50% of your final grade, due 26<sup>th</sup> of May, 5pm)

The objective of this assignment is for students to do research on an industry and write a report applying the concepts introduced in the course. The firm could be a multinational corporation or it could be a firm that operates within a single country (does not have to be Australia).

Specifically, in the essay students need to answer the following questions:

- What is the market structure of the industry? How many firms are there in the market? Are there any barriers to entry?
- Do the competition authorities regulate this industry? Have there been reports of anti-competitive behaviour by any firm in the industry?
- What is the cost structure of the industry? Are there economies of scale and scope? How are firms in the industry organized in terms of vertical integration?
- Are the firms in the market using price discrimination methods?
- What is the informational structure of the market? Can buyers easily observe price and quality? What specific strategies do firms employ to solve asymmetric information problems?

- How intensive is the usage of advertising? What form of advertising is mainly used?
- Is the market multi-sided? Are there any direct or indirect network effects?
- Is it reasonable to assume that consumers in this industry are perfectly rational? What strategies do firms employ to take advantage of the bounded rationality of consumers?
- How does industrial policy (i.e. trade restrictions, antitrust policy) affect the market?

If you are analysing a single firm you have to answer the above questions briefly for the industry that the firm operates in and in more detailed regarding the behaviour of your firm.

You are free to discuss other important questions in your essay as long as it is deemed crucial to the understanding of the industry or firm behaviour.

The essay should be organized in a coherent manner and should have a title, an abstract (max. 400 words), a short introduction, main analysis and a short conclusion.

In your analysis you should make use of quantitative data (costs, market share, profitability, advertising expenditure etc.) in answering the above questions. Usage of graphs and tables is highly appreciated.

For your essay you need to choose any industry or a company that you find interesting. Some industries you might find interesting are:

- Hotel (accommodation) industry
- Construction Industry
- Beer industry
- Software industry
- Health insurance
- Car insurance
- Commercial banking
- Newspaper industry
- Airlines
- Television networks
- Higher education (i.e. universities)
- Broadband internet

The essay should:

- demonstrate a good understanding of the different aspects of the industry/company in question
- present quantitative data, back its arguments by evidence from sources
- use the Harvard referencing style in the body of the essay, and provide a full list of correctly documented references at the end of the essay.
- adhere with formatting and style requirements (maximum 4000 words (excluding abstract), double spacing, font size of 12)
- use correct spelling and grammar
- adhere with rules of academic honesty
- be submitted via Turnitin by the deadline. Late submission will be punished (10% per day)

Note that the assignment can be done in groups of two, in which case the essay should be up to 5000 words (minimum 4000 words).

## Reading List for ECON7400:

Items in *italics* are supplementary reading. There may be additional supplementary readings, which will be posted on Blackboard. Required readings that are not from Cabral (2000) will be made available via the library website.

### Week 1: Monopoly Pricing and Price Discrimination

Cabral Chapters 5 & 10 (required)

*Leslie, Phillip, (2004), Price Discrimination in Broadway Theater, RAND Journal of Economics, 35, issue 3, p. 520-541.*

### Week 2: Economies of scale and scope

Church & Ware Chp. 3 (required)

*Persyn, Damiaan, Swinnen, Johan F. M. and Vanormelingen, Stijn, Belgian Beers: Where History Meets Globalization (October 2010). Available at SSRN: <http://ssrn.com/abstract=1752842> or <http://dx.doi.org/10.2139/ssrn.1752842>*

*Worthington, A. C., & Higgs, H. (2011). Economies of scale and scope in Australian higher education. Higher Education, 61(4), 387–414. doi:10.1007/s10734-010-9337-3.*

### Week 3: Competition and welfare effects

Cabral Chapter 6 & 14 (required)

*Doing Business 2013: Doing Business in a More Transparent World, World Bank Report*

### Week 4: Oligopoly and Collusion

Cabral Chapters 7 & 8 (required)

*Dufwenberg, Martin & Gneezy, Uri, 2000. "Price competition and market concentration: an experimental study," International Journal of Industrial Organization, Elsevier, vol. 18(1), pages 7-22, January.*

### Week 5: Asymmetric Information

Cabral Chapters 7 & 8 (required)

*Uwe Dulleck & Rudolf Kerschbamer & Matthias Sutter, 2011. "The Economics of Credence Goods: An Experiment on the Role of Liability, Verifiability, Reputation, and Competition," American Economic Review, American Economic Association, vol. 101(2), pages 526-55, April.*

### Week 6: Library Session

### Week 7: Search and advertising

Cabral (Chapter 13); Carlton & Perloff (Chapter 14) (required)

*Simon P. Anderson & Regis Renault, 2006. "Advertising Content," American Economic Review, American Economic Association, vol. 96(1), pages 93-113, March.*

## Week 8: Network Effects

Cabral Chapter 17 (required)

Oz Shy. 2011. A Short Survey of Network Economics. *Review of Industrial Organization*

*Bresnahan, T. "Network Effects and Microsoft." Stanford University, Palo Alto, CA, 2001.*

## Week 9: Two-sided markets?

Rysman, Marc 2009. "The Economics of Two-Sided Markets." *Journal of Economic Perspectives*, 23(3): 125–43. (required)

*Shy, Oz, and Zhu Wang. 2011. "Why Do Payment Card Networks Charge Proportional Fees?" American Economic Review, 101(4): 1575–90.*

## Week 10: Behavioral Industrial Organization

Ellison, Glenn (2006), Bounded Rationality in Industrial Organization, in: *Advances in economics and econometrics: theory and applications, ninth World Congress (2)*, eds: Richard Blundell, Whitney K. Newey, Torsten Persson, Cambridge University Press.

*Kalay, I., Kenan & Potters, Jan, 2011. "Buyer confusion and market prices," International Journal of Industrial Organization, Elsevier, vol. 29(1), pages 14-22, January.*

*Stefano DellaVigna & Ulrike Malmendier, 2006. "Paying Not to Go to the Gym," American Economic Review, American Economic Association, vol. 96(3), pages 694-719, June.*

*Thaler, R.H. & Benartzi, S., 2004. Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving. Journal of Political Economy, 112(S1), p.S164-S187. Available at: <http://www.journals.uchicago.edu/doi/abs/10.1086/380085>*

## Week 11: Industrial Policy

Carlton & Perloff (Chapters 18 and 19); Krugman & Obstfeld (Chapter 9) (required)

*Banks, G. 2008, Industry Policy for a Productive Australia, Colin Clark Memorial Lecture, Brisbane, 6 August. Productivity Commission, Melbourne.*

*King, Stephen P., Competition Regulation in Australia: A Report Card (The 2011 Colin Clark Lecture) (November 17, 2011). Available at SSRN: <http://ssrn.com/abstract=1963040> or <http://dx.doi.org/10.2139/ssrn.1963040>*

## Week 12: Multinationals

Caves (Chapter 1) (required)

Hennert, J-F. (2001). 'Theories of the multinational enterprise'. In Rugman, A. M. and Brewer, T. L. (Eds.), *The Oxford Handbook of International Business* (pp. 127 – 49). Oxford: Oxford University Press. (required)

## Week 13: Review

No additional reading