OFFICIAL COURSE DESCRIPTION

Regulation and competition policy as alternative approaches for influencing industry conduct and performance and correcting market failures. Topics may include incentive regulation under asymmetric information, cost-based pricing, second-best pricing, peak-load pricing, rate-of-return regulation, price-cap regulation, access pricing, and regulatory capture.

GENERAL COURSE OBJECTIVES

This course deals with the theoretical aspects of the economics of regulation. It is concerned with how the government can correct market failures, which can be due, among other factors, to entry barriers, externalities, and asymmetric information. The topics covered include:

- Traditional approaches to regulation, such as cost-based pricing, second-best pricing, peak-load pricing and rate of return regulation;
- Different mechanisms for correcting externalities, taking into account uncertainty and the effects on market structure;
- Economics of network industries;
- Innovation policy;
- Competition policy issues, such as mergers and leniency programs;
- Price caps and access pricing;
- Regulatory capture;
- Regulation under asymmetric information.
EVALUATION

Final exam  50%
Paper       50%

Deferred exams (upon submission of a valid medical certificate) will take place on Friday, May 4th, 2018.

MANUALS

The course draws on a large number of journal articles. In addition, excerpts from the following books will be used. An (R) indicates the book/document is available on Reserve at Morisset Library. A (B) indicates the document (or the required parts of it) is available for download from www.uottawa.brightspace.com.


Kahn, A.E. 1988. The Economics of Regulation: Principles and Institutions. The MIT Press. (B)


Spulber, D. 1989. Regulation and Markets. The MIT Press. (B)


PAPER GUIDELINES

1) There are three types of papers you can write:

- A review of the literature (most students choose this option);
- An empirical paper; or
- A theoretical paper,

on a topic of your choice, related to Industrial organization.

2) For those doing the review, I suggest:

- Having a look at the *Journal of Economic Surveys* to see examples of good surveys on various topics;
- Having a look at course papers written by previous students, in my office; and
- Consulting the following website:

3) The paper should have:

- A cover page
- An abstract (between 150 and 300 words)
- A table of contents
- Page numbers (the introduction of the paper starts on page 1)
- Font: Times New Roman, size 12
- Margins: 1 inch (2.54 cm) on all sides
- Line spacing: 1.5
- Minimum length: 20 pages, EXCLUDING the abstract, tables, figures, references, and any appendix.

4) You need to confirm the topic of the paper with me (verbally or by email) before you start writing.


Complementary sources of information on articles and working papers include:
- Google scholar: http://scholar.google.ca/
- Social Science Research Network: www.ssrn.com
- IDEAS: http://ideas.repec.org/i/p.html

6) Do NOT use any book listed in this syllabus, and do NOT use your class notes.

7) The paper is due on April 27th.

8) Beware of plagiarism:
COURSE OUTLINE

A * indicates a journal article or book chapter. Journal articles can be downloaded from the Morisset Library website.

Overview of regulation


Cost-based pricing

* Spulber. Ch. 3. Cost-based pricing. (B)

Second-best pricing

Ramsey-Boiteux pricing, Welfare characterization of Ramsey-Boiteux pricing, Relationship with Fully distributed cost pricing, Externalities


Contestable markets

* Tirole. 1988. Section 8.1.2. Contestability, Chapter 8. pp. 308-311. (B)

Peak load pricing


Firm/shifting peak, Increasing returns, Monopoly, Substitutes/complements

Rate of return regulation: The Averch-Johnson model

* Spulber. Ch. 10. Barriers to Entry 1: Rate Regulation and Bargaining. pp. 267-293. (B)


Relationship with Peak load pricing, General equilibrium

**Regulation under asymmetric information**


* Laffont and Tirole. 1993. Ch. 1 (Cost-reimbursement rules). pp. 53-72, 82-84. (R)

**Innovation policy**

* Comino and Manenti. 2014. Ch. 6. Cumulative innovation in dynamic industries. (B)

**Price caps**


* Handout: Price caps. (B)


**Access pricing and Telecommunications**

* Laffont and Tirole 2000, Ch. 2 (Incentive Regulation) & 3 Essential Facility and One-Way Access: Theory). (R)

* Handout: Pricing access to essential facilities (B)

Stranded costs and access pricing

**Externalities**


**Regulatory capture**


The Peltzman model


**Competition policy**


* Belleflamme and Peitz. 2010. Ch. 15. Horizontal mergers. (R)

* Belleflamme and Peitz. 2010. Ch. 17. Vertically related markets. (R)

**Network goods**

* Belleflamme and Peitz. 2010. Ch. 20. Markets with network goods. (B)

**The first best**


Incremental surplus subsidy policy