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 and externalities. 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;
- Price caps and access pricing;
- Regulatory capture, corruption, and trust;
- Regulation under asymmetric information;
- Auctions.

MANUALS

The course draws on a large number of journal articles. In addition, excerpts from the following books will be used:


Schmalensee, R., 1988, Handbook of Industrial Organization, Vol. II.

The course has a website at maestro.uottawa.ca. The web sites contains references for further reading.

EVALUATION

Final exam  50%
Paper      50%

LECTURES

Overview of regulation


**Cost-based pricing**

Spulber, Ch. 3.


**Second-best pricing**


**Peak load pricing**


**Rate of return regulation: The Averch-Johnson model**

Spulber, Ch. 10, pp. 267-93.


**Externalities**

Spulber, Ch. 12 (pp. 331-45) & Ch. 13 (pp. 350-69).


**Price caps**

Laffont and Tirole 2000, Ch. 2 & 4.

**Access pricing and Telecommunications**

Laffont and Tirole 2000, Ch. 2 & 3.

**Regulatory capture**


**Introduction to the New Regulatory Economics**


**The basic model**

Laffont and Tirole 1993, Ch. 1, pp. 53-72, 82-84.


**Pricing**

Laffont and Tirole 1993, Ch. 2 (pp. 129-37, 155-8) and Ch. 3 (pp. 165-73, 178-9, 206).

**Auctions and regulation**

Laffont and Tirole 1993, Ch. 7.


**Dynamics without commitment - The Ratchet effect**

Laffont and Tirole 1993, Ch. 9, pp. 375-82, 409-11.


**Dynamics with commitment and renegotiation**

Laffont and Tirole 1993, Ch. 10, pp. 437-47, 458-60.


**The regulation of quality**

Laffont and Tirole 1993, Ch. 4, pp. 211-37.

**Contestable markets**


**Privatization**

Laffont and Tirole 1993, Ch. 17.

**Second-best price discrimination**

Spulber, Ch. 7.