**INDUSTRIAL ORGANIZATION II**  
**ECO 6142**  
**PROFESSOR: GAMAL ATALLAH**  
**WINTER 2019**

**Course schedule**  
Friday 11:30 – 2:20

**Course location**  
FSS 4014

**Office hours**  
Monday 5:00 – 6:00  
Thursday 2:00 – 3:00

**Office**  
FSS 9024

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**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 cap regulation and access pricing;
- Regulatory capture;
- Regulation under asymmetric information.
EVALUATION

Midterm exam 25% February 15th
Final exam 40%
Paper 35% April 26th

Deferred final exams (upon submission of a valid medical certificate) will take place on May 3rd 2019.

MANUALS

The course draws on a large number of books and journal articles. An (R) indicates the book/document is available on Reserve at Morisset Library. A (V) indicates the document (or the required parts of it) is (or will be) available for download from Virtual Campus at https://tlss.uottawa.ca/site/en/vc-home-page.


Chang, H.J. 2010. 23 Things They Don't Tell You About Capitalism, Allen Lane. (V)

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 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: https://ideas.repec.org/

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

7) The paper is due on April 26th.
COURSE OUTLINE

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

Overview of regulation


* Chang. Ch. 12: Governments can pick winners. (V) Ch. 18: What is good for General Motors is not necessarily good for the United States.(V)

Cost-based pricing

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

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, pp. 308-311. (V)

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. (V)


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. (V)

Price caps


* Handout: Price caps. (V)


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. (V)

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. (V)

**The first best**


Incremental surplus subsidy policy
The University of Ottawa does not tolerate any form of sexual violence. Sexual violence refers to any act of a sexual nature committed without consent, such as rape, sexual harassment or online harassment. The University, as well as student and employee associations, offers a full range of resources and services allowing members of our community to receive information and confidential assistance and providing for a procedure to report an incident or make a complaint. For more information, visit www.uOttawa.ca/sexual-violence-support-and-prevention
**Beware of Academic Fraud!**

Academic fraud is an act committed by a student to distort the marking of assignments, tests, examinations, and other forms of academic evaluation. Academic fraud is neither accepted nor tolerated by the University. Anyone found guilty of academic fraud is liable to severe academic sanctions.

Here are a few examples of academic fraud:

- engaging in any form of plagiarism or cheating;
- presenting falsified research data;
- handing in an assignment that was not authored, in whole or in part, by the student;
- submitting the same assignment in more than one course, without the written consent of the professors concerned.

In recent years, the development of the Internet has made it much easier to identify academic plagiarism. The tools available to your professors allow them to trace the exact origin of a text on the Web, using just a few words.

In cases where students are unsure whether they are at fault, it is their responsibility to consult the “Writing and Style Guide for University Papers and Assignments.” It can be found at: [http://socialsciences.uottawa.ca/undergraduate/writing-style-guide](http://socialsciences.uottawa.ca/undergraduate/writing-style-guide)

Persons who have committed or attempted to commit (or have been accomplices to) academic fraud will be penalized. Here are some examples of the academic sanctions, which can be imposed:

- a grade of “F” for the assignment or course in question;
- an additional program requirement of between 3 and 30 credits;
- suspension or expulsion from the Faculty.

For more information, refer to the *Student’s Guide to Academic Integrity:* [http://www.uottawa.ca/vice-president-academic/sites/www.uottawa.ca.vice-president-academic/files/academic-integrity-students-guide.pdf](http://www.uottawa.ca/vice-president-academic/sites/www.uottawa.ca.vice-president-academic/files/academic-integrity-students-guide.pdf)

and Academic Integrity Website (Office of the Vice-President Academic and Provost) [http://web5.uottawa.ca/mcs-smc/academicintegrity/home.php](http://web5.uottawa.ca/mcs-smc/academicintegrity/home.php)