

SYLLABUS

Course Title: The Economics of Regulation and Competition (IKT3700)

Academic Year / Semester: 2018 Spring

Instructor: Dr. Tunç Durmaz

Office: G2-101 **Office hours:** Wednesday 13:00 – 14:00 or by appointment

Lecture Time / Room: Tuesday @ 1pm / Z14

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URL: https://www.tuncdurmaz.com/econ_of_reg_2018f.html

Objective

In this class, we will first address the question, “Why regulate?” Regulation is broadly defined to be government intervention to change market outcomes. The intervention can directly affect market outcomes, such as prices (e.g., *price-cap regulation*), quality, product variety, or the number of service providers, by restricting the number of firms that will provide goods and services (e.g., entry regulation). One prominent rationale for regulation is that an industry is a *natural monopoly*. Following the investigation of the role of the government in regulating the market, we will start discussing the economics of competition, in particular, competition policy. Competition policy is a field where lawyers and economists work together. Both judges and competition authorities should master sophisticated economic concepts and theories. Likewise, economists have to understand the legal and institution framework of antitrust policy. The main objective of this part is to provide a guide to all those who have an interest in competition issues, and to offer them the possibility to understand that modern advanced economics teaches us on these issues. We will deal with both the theory and the practice of government regulation and competition policy. We will draw on the literature of industrial organization, and various analyses to investigate the effects that firms’ practices have on welfare, and formulate policy recommendations that can be of practical use for antitrust authorities.

The lessons will be held in English. Attendance is not obligatory. The grading consists of one mid-term (30%), ‘unannounced’ quizzes (30%), and a final exam (40%). There will be no make-ups for quizzes under any circumstances.

Topics

- Rational for Regulation [LNs, Church and Ware (2000)]
 - The market failure test
 - Theory of Natural Monopoly
- Theory of natural monop. [LNs, Viscusi et al. (2005) Ch.11, Church and Ware 2000)]
 - Permanent and temporary natural monopoly; Subadditivity and multiproduct monopoly; Economies of scope
 - Policy solutions to correcting natural monopoly inefficiencies: ideal pricing solutions
 - Large Specific Investments
- Optimal Pricing for Natural Monopoly
 - First-best pricing
 - Second-best pricing: Ramsey prices
 - Peak-load pricing
- History, objectives and the Competition Law [Lecture notes (LNs), Motta (2004) Chapter 1]
 - What is competition policy: a historical approach
 - A brief look at the competition laws in the US and in Europe
 - Formal definition of competition policy (the set of policies and laws which ensure that competition in the marketplace is not restricted in such a way as to reduce economic welfare)

- Market power and welfare [LNs, Motta (2004) Chapter 2]
 - Allocative efficiency
 - Productive efficiency
 - Dynamic efficiency
- Competition policy and industrial policy (a contemporary discussion) [LNs, Tirole (2018) Chapter 13]
 - (Intelligent) government regulation
 - How does competition serve the society?
 - (Targeted) industrial policy
- Market definition and assessment of market power [LNs, Motta (2004) Chapter 3]
- Market concentration [LNs, Motta (2004) Chapter 3, Viscusi et al. (2005) Chapter 6]
 - Indices to measure concentration
 - Entry conditions
 - Dominant firm model
- Collusion and horizontal agreements [LNs, Motta (2004) Chapter 4]
- Horizontal mergers [LNs, Motta (2004) Chapter 5, Viscusi et al. (2005) Chapter 7]
- Vertical mergers [LNs, Motta (2004) Chapter 6, Viscusi et al. (2005) Chapter 8]
- Digital economies: how digitization is changing everything [LNs, Tirole (2018) Chapter 14]
 - Two-sided platforms
 - Platforms as regulators

If we still have some time left...

- Issues in regulation
- Natural Monopoly Regulation and Electric Power
- Economic Regulation of Energy
- Environmental Regulation and Environmental Policy

*Depending on the topic, we may need to cover topics related to game theory (Nash equilibrium; dynamic games and sub-game perfect Nash equilibrium; and imperfect competition models (oligopoly --static and dynamic games--))

Course Material

- Lecture Notes.
- Church, Jeffrey R., and Roger Ware. *Industrial organization: a strategic approach*. Boston: Irwin McGraw Hill, 2000.
- Motta, Massimo. *Competition policy: theory and practice*. Cambridge University Press, 2004.
- Tirole, Jean. *Economics for the Common Good*. Princeton University Press, 2017.
- Viscusi, W. Kip, Joseph E. Harrington, and John M. Vernon. *Economics of regulation and antitrust*. MIT press, 2005.

Important

Please, do not bring up your personal misfortunes and problems regarding your planned graduation under any circumstances. For example, that you started working or that you need to pass this course in order to graduate or any family problem or misfortune must not be addressed to me. Therefore, in case you send me an email(s) related to the aforementioned issue, do not expect any response. Moreover, in case you need to use your phone, use it outside the class, not inside!.. You are welcome to come back to the class when you are done.