

# SYLLABUS

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

**Academic Year / Semester:** 2020 Spring

**Instructor:** Asst. Prof. Tunç Durmaz

**Office:** G2-101 **Office hours:** *to be announced*

**Lecture Time / Room:** Thu @ 10am / Z07

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## Objective

In the first part of the course, 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*.

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 course 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. In the second part of the course, we will deal with both the theory and the practice of 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 obligatory. The grading consists of two mid-terms (~30% each) and a final exam (~40%). The details of the assignments will be provided in the following weeks.

## Topics

### First part

- Rational for Regulation
- Monopoly
  - Monopoly profit maximization; Market power and welfare; The Lerner Index; Taxes and Monopoly; Allocative efficiency; Productive efficiency; Dynamic efficiency Causes of monopolies; Natural monopoly [LNs, Perloff (2017) Ch.11, Motta (2004) Chapter 2, Viscusi et al. (2005) Ch.11, Church and Ware 2000]]
- Oligopoly and monopolistic competition
  - Game theory; market structures; cartels; Cournot/Bertrand oligopoly models; monopolistic competition; Corporate leniency program
- Pricing solutions to (natural) monopoly inefficiencies
  - First-best (marginal-cost) pricing
  - Second-best pricing: Ramsey-Boiteux pricing
  - Nonlinear price discrimination (block pricing) and two-part pricing [Perloff (2017) Ch.11]
  - Peak-load pricing

### Second part

- 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)

- 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]
- Mergers
  - 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
  - The challenges two-sided markets pose for competition policy

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

### Course Material

- Lecture Notes.
- 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.
- Perloff, J., M. Microeconomics: Theory and Applications with Calculus, 4th Edition, Pearson, 2017.
- Church, Jeffrey R., and Roger Ware. *Industrial organization: a strategic approach*. Boston: Irwin McGraw Hill, 2000.

### Important

Please, refrain from bringing up your personal misfortunes and problems regarding your planned graduation under any circumstances. For example, that ***you started working, you need to pass this course in order to graduate, your GPA is below 2.00, or any family problems etc.*** must not be addressed to me. Therefore, do not expect any response to your emails in this regard.

Lastly, in case you need to use your phone, please use it outside the class, not inside!.. You are welcome to come back to the class when you are done. Though, do not overdo this please.