

Economics 890-3
Empirical Industrial Organization and Applied Microeconomics
Fall 2015

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Class Time: **Regularly:** Mondays and Wednesdays from 10:30am-11:45am.
 Exception: Until early October, Monday meetings will be at 1:30pm.

Class location: Gardner 307 (all meetings)

Office Hours: Tuesdays 9:00-11:00 and by appointment in Gardner 200C

Course organization and goals

This is the first of two empirical industrial organization (IO) courses offered at UNC during the 2015-16 academic year. The courses are designed to be taken in sequence. In this course we will cover static demand estimation, information issues, vertical relations between firms, productivity, and networks. The second course will cover dynamic demand, auctions, and static and dynamic games.

If you intend to do dissertation research in empirical IO, you should also take a course in IO theory. Professor Gary Biglaiser is teaching a theory course during fall 2015 that is designed, in part, to complement the UNC empirical IO sequence.

This course has three goals. Our main objective is to prepare you to do original research in empirical IO. To this end, we will survey some of the main areas of the IO literature. Our survey will focus on introducing some modeling and estimation techniques that are central to modern empirical IO, and we will also review some topics that are prominent in current research.

Our second objective is to improve your ability to do research in applied microeconomics, broadly defined. To satisfy this objective, we will put extra weight on parts of the empirical IO literature that are most likely to be beneficial for research outside of IO. In some cases these benefits will come through exposure to particular econometric techniques, and in other cases they will come through economic models or empirical results that are useful for all microeconomists to know.

The final objective is to show you some very successful dissertation papers in empirical IO. Successful dissertations across applied microeconomics will have much in common in terms of question selection, data construction, and methodology.

Our approach

We will read a selection of papers from the empirical IO literature. The emphasis will be on recent papers so that you can see the latest methods applied.

For each paper we read, you will need to evaluate:

- How is the empirical exercise motivated by theory or policy relevance?
- What is the relationship between the relevant theory and the empirical exercise?
- What about the data and modeling assumptions do you believe and/or not believe?
- Do the empirical results achieve author's objective?
- How could this paper be extended to provide additional useful results? If the present data and model are insufficient, what is needed?

We will develop your ability to answer these questions through a series of in-class activities, homework assignments, and a final paper.

Graded work

Your grade will come from four distinct activities.

1. Class participation (25%). Our class meetings will involve balanced discussion among all of us. You need to contribute constructively and frequently to classroom discussion for your own grade and to help move the class along.
2. Paper presentations (20%). Each student will do one in-class presentation of a research article during the semester. Each presentation will last about 45 minutes and provide a discussion of some central points in an article. Once the presentation schedule and articles are set, I will assign the portions of each paper that a student will discuss. For example, a student may be asked to present the data and econometric model of a particular paper, but not the paper's introduction, theory section, or results.
3. Homework assignments (30%). There will be about 4 data-oriented homework assignments. You will need Stata for some of the assignments, and an advanced programming language such as Matlab or Fortran for others.
4. Final paper (25%). On Wednesday December 9 you will turn in a brief paper (8-10 pages) that motivates and describes a novel empirical research idea that is part of industrial organization, broadly defined. Think of this paper as a condensed version of the material found in the first half of a traditional research article. You do not need to collect the data necessary to "complete" the article, but you must show that the data could be collected or created in a reasonable amount of time or with finite financial resources. During the last week of class you will give a brief presentation on your paper topic and progress.

Sakai

I will use Sakai to distribute notes, readings, homework assignments, etc. Please verify that you can log on to Sakai and access the information for this class. All grades for the course will be stored and displayed on the Sakai course page. It is your responsibility to insure that the grades on this course page are accurate.

Homework assignments

I will post assignments to Sakai about one week before they are due. Some assignments must be done individually, while others can be completed in groups of 2 or 3 students. You are welcome to discuss all assignments and potential solutions freely with any students in the class, but each individual or group must turn in their own version of the homework. I will provide brief answers to the assignments about one week after they are due.

Classroom etiquette

My goal is to maintain a classroom environment that provides a good learning environment for everyone. To minimize distractions, you must turn off all phones, laptops, and other electronic devices during class. I expect you to arrive on time and prepared for the day's class.

Readings and outline

There are several high-quality background sources that you should be ready to consult. They are:

- D. Carlton and J. Perloff, *Modern Industrial Organization*, Addison Wesley, 2004.
- J. Wooldridge, *Econometric Analysis of Cross-Section and Panel Data*, MIT, 2002
- J. Tirole, *The Theory of Industrial Organization*, MIT Press, 1988
- T. Bresnahan, "Empirical Studies of Industries with Market Power." in Schmalensee and Willig (Eds.), *Handbook of Industrial Organization*, Vol. 2, Ch. 17, pp. 1011-58. 1989.
- P. Reiss and F. Wolak "Structural Econometric Modeling: Rationales and Examples from Industrial Organization," in Heckman and Leamer (Eds), *Handbook of Econometrics*, Vol. 6, Ch. 64, pp. 4277-4415.

The books are available for purchase or at the library. The handbook chapters are available at the course Sakai page.

The specific readings for this course are listed below and separated by topic. I have provided estimates of how much time each topic will take us to cover. These estimates are likely to be wrong, and we will adjust our topic coverage as needed throughout the semester.

Each listed topic identifies some papers we will cover in class, plus some extra material for students interested in any particular topic. You are required to read all of the papers under each "In class" heading before we discuss them in class. I will give you advance notice on what papers we will cover in upcoming classes. Count on reading about one paper per class meeting.

About a month into the semester, we will begin having student presentations of papers. These are likely to be drawn from the collection of papers we will cover in class. Presentation topics and timing will be assigned about two weeks before the presentations begin.

Policy background (first meeting)

In class:

- US Department of Justice and Federal Trade Commission: "Horizontal Merger Guidelines," 2010.
- US Justice Department complaint on ABI-Modelo merger, 2013.

Static demand

Homogeneous goods (1 week)

In class:

- R. Porter, "A Study of Cartel Stability: The Joint Executive Committee, 1880-1886," BJE 14(2), Autumn 1983, pp. 301-314.
- K. Graddy, "Testing for Imperfect Competition at the Fulton Fish Market," RJE 26(1), Spring 1995, pp. 75-92.

Supplemental papers:

- T. Bresnahan, "The Oligopoly Solution Is Identified," EL 10(1-2), 1982, pp. 87-92.

- D. Genesove and W. Mullin, "Testing Static Oligopoly Models: Conduct and Cost in the Sugar Industry, 1890-1914," RJE 29(2), Summer 1998, pp. 355-377.

Differentiated products (2 weeks)

In class:

- T. Bresnahan, "Competition and Collusion in the American Automobile Industry: The 1955 Price War," JIE 35(4), June 1987, pp. 457-482.
- S. Berry, "Estimating Discrete-Choice Models of Product Differentiation," RJE 25(2), Summer 1994, pp. 242-262.
- S. Berry, J. Levinsohn, and A. Pakes. "Automobile Prices in Market Equilibrium." ECMA 63(4), July 1995, pp. 841-890.

Supplemental papers:

- D. Epple, "Hedonic Prices and Implicit Markets: Estimating Demand and Supply Functions for Differentiated Products," JPE 95(1), February 1987, pp. 59-80.
- P. Bajari and L. Benkard "Demand Estimation with Heterogeneous Consumers and Unobserved Product Characteristics: A Hedonic Approach," JPE 113(6), December 2005, pp. 1239-1276.
- P. Goldberg, "Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry," ECMA 63(4), July 1995, pp. 891-951.
- S. Berry, J. Levinsohn, and A. Pakes. "Differentiated Products Demand Systems from a Combination of Micro and Macro Data: The New Car Market," JPE 112(1), February 2004, pp. 68-105.
- I. Hendel, "Estimating Multiple Discrete Choice Models: An Application to Computerization Returns," REStud 66(2), April 1999, pp. 423-446.
- A. Nevo, "A Practitioner's Guide to Estimation of Random Coefficients Logit Models of Demand," JEMS 9(4), December 2000, pp. 513-548.

Demand applications

Welfare effects (2 weeks)

In class:

- A. Nevo, "Mergers with Differentiated Products: The Case of the Ready-to-Eat Cereal Industry," RJE 31(3), Autumn 2000, pp. 395-421.
- A. Petrin, "Quantifying the Benefits of New Products: The Case of the Minivan," JPE 110(4), August 2002, pp. 705-729.
- M. Gentzkow, "Valuing New Goods in a Model with Complementarity: Online Newspapers," AER 97(3), June 2007, pp. 713-744.

Supplemental papers:

- M. Trajtenberg, "The Welfare Analysis of Product Innovations, with an Application to Computed Tomography Scanners," JPE 97(2), April 1989, pp. 444-479.
- A. Goolsbee and A. Petrin, "Consumer Gains from Direct Broadcast Satellites and the Competition with Cable TV," ECMA 72(2), March 2004, pp. 351-381.

Price discrimination and bargaining models (2 weeks)

In class:

- P. Leslie, "Price Discrimination in Broadway Theater," RJE 35(3), Autumn 2004, pp. 520-541.
- G. Crawford and A. Yurukoglu, "The Welfare Effects of Bundling in Multichannel Television Markets," AER 102 (2), April 2012, pp. 643-85.
- G. Gowrisankaran, A. Nevo, and R. Town "Mergers when Prices Are Negotiated: Evidence from the Hospital Industry," AER 105(1), January 2015, pp.172-203.

Supplemental papers:

- A. Shepard, "Price Discrimination and Retail Configuration," JPE 99(1), February 1991, pp. 30-53.
- B. McManus, "Nonlinear Pricing in an Oligopoly Market: The Case of Specialty Coffee," RJE 38(2), Summer 2007, pp. 512-532.
- G. Crawford, "The Discriminatory Incentives to Bundle in the Cable Television Industry," QME 6(1), March 2008, pp. 41-78.
- M. Grennan, "Price Discrimination and Bargaining: Empirical Evidence from Medical Devices," University of Toronto WP.

Information in markets (1.5 weeks)

In class:

- D. Akerberg, "Empirically Distinguishing Informative and Prestige Effects of Advertising," RJE 32(2), Summer 2002, pp. 100-118.
- G. Jin and P. Leslie, "The Effects of Information on Product Quality: Evidence from Restaurant Hygiene Grade Cards," QJE 118(2), May 2003, pp. 409-451.

Supplemental papers:

- D. Dranove, D. Kessler, M. McClellan and M. Satterthwaite, "Is More Information Better? The Effects of 'Report Cards' on Health Care Providers" JPE 111(3), June 2003, pp. 555-588.
- J. Milyo and J. Waldfoegel, "The Effect of Price Advertising on Prices: Evidence in the Wake of 44 Liquormart," AER 89(5), December 1999, pp. 1081-96.
- D. Genesove, "Adverse Selection in the Wholesale Used Car Market." JPE 101(4), August 1993, pp. 644-665.
- D. Elfenbein, R. Fisman, and B. McManus, "Market Structure, Reputation, and the Value of Certification," Working paper 2014.
- A. Sorensen, "Equilibrium Price Dispersion in Retail Markets for Prescription Drugs," JPE 108(4), August 2000, pp. 833-850.

Inter-firm relationships (1.5 weeks)

In class:

- J. Mortimer, "Vertical Contracts in the Video Rental Industry," REStud 75(1), January 2008, pp. 165-199.
- A. Hortcasu and C. Syverson, "Cementing Relationships: Vertical Integration, Foreclosure, Productivity, and Prices", JPE 115(2), April 2007, pp. 250-301.

- P. Joskow, "Contract Duration and Relationship-Specific Investments: Empirical Evidence from Coal Markets," *AER* 77(1), March 1987, pp. 168-85.

Supplemental papers:

- F. Lafontaine, "Agency Theory and Franchising: Some Empirical Results," *RJE* 23(2), Summer 1992, pp. 263-283.
- J. Hastings, "Vertical Relationships and Competition in Retail Gasoline Markets: Empirical Evidence from Contract Changes in Southern California," *AER* 94(1), March 2004, pp. 317-328.
- G. Baker and T. Hubbard, "Make vs. Buy in Trucking: Asset Ownership, Job Design and Information," *AER* 93(3), June 2003, pp. 551-572.
- R. Kellogg, "Leaning by Drilling: Interfirm Learning and Relationship Persistence in the Texas Oilpatch," *QJE* 126(4), November 2011, pp. 1961-2004.

Production and technology (1.5 weeks)

In class:

- C. Syverson, "Market Structure and Productivity: A Concrete Example," *JPE* 112(6), December 2004, pp. 1181-1222.
- A. Collard-Wexler and Jan De Loecker, "Reallocation and Technology: Evidence from the U.S. Steel Industry," *AER* 105(1), January 2015, pp. 131-171.

Supplemental papers:

- S. Olley and A. Pakes. "The Dynamics of Productivity in the Telecommunications Equipment Industry." *ECMA* 64(6), November 1996, pp.1263-1298.
- D. Akerberg, K. Caves and G. Frazer, "Structural Estimation of Production Functions," UCLA working paper, 2007.
- L. Christensen and W. Greene, "Economies of Scale in U.S. Electric Power Generation," *JPE* 84(4), August 1976, pp. 655-676.
- N. Bloom and J. van Reenen. "Measuring and Explaining Management Practices Across Firms and Countries," *QJE* 122(4), November 2007, pp. 1351-1408.

Networks and platforms (0.5 weeks)

In class:

- M. Rysman, "Competition between Networks: A Study of the Market for Yellow Pages," *REStud* 71(2), April 2004, pp. 483-512.

Supplemental papers:

- D. Akerberg and G. Gowrisankaran, "Quantifying Equilibrium Network Externalities in the ACH Banking Industry," *RAND* 37(3), Autumn 2006, pp. 738-61.
- G. Saloner and A. Shepard, "Adoption of Technologies with Network Effects: An Empirical Examination of the Adoption of Automated Teller Machines," *RAND* 26(3), Autumn 1995, pp. 479-501.

Abbreviations for journal names:

AER – American Economic Review

BJE – Bell Journal of Economics

ECMA – Econometrica

EL - Economics Letters

IER – International Economic Review

JEMS – Journal of Economics and Management Strategy

JIE – Journal of Industrial Economics

JPE - Journal of Political Economy

RJE – RAND Journal of Economics

REStud – Review of Economic Studies

QJE -- Quarterly Journal of Economics

QME – Quantitative Marketing and Economics