

# ECON 345/ MGMT 345

Public Policy Towards Business  
Spring 2014

Instructor: Ben Labe  
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Class Hours: MWF 12:00pm-12:50pm, Gardner 308

Office Hours: Friday 1-3 pm (or by appointment), Phillips Annex 202

**Final Exam:** Monday, April 28, 12:00 - 3:00 pm, in our classroom.

**Textbook:** *Contemporary Industrial Organization; A Quantitative Approach* by Lynne Pepall, Dan Richards, and George Newman

**Course Summary** This course will study the strategic interaction of firms both with and without the assumption of perfect competition. We will use Game Theory and Microeconomic Theory to predict the content and welfare implications of the behavior of firms. The main goal is to understand how and why the government regulates markets. We will supplement our theory with case studies from the textbook and outside sources (e.g. *The Economist*, *New York Times*, *Wall Street Journal*, etc...) to provide you with a more practical view of the topics that are covered in lecture.

## Course Objectives

- To understand how and why different types of markets are regulated.
- To have a basic working knowledge of Game Theory. You should be able to solve simple static and dynamic games for their appropriate types of equilibria.
- To be able to infer basic types of firm behavior and distinguish/classify them. Examples include price discrimination, mergers, collusion between firms, etc..
- To understand the intuition for the equilibria in our models, and how this relates to the real world.

## Summary of Course Topics

We will cover the following topics, which are listed alongside their respective chapters in the textbook:

1. Industrial Organization and Imperfect Competition: What, How, and Why (Ch. 1)
2. Basic Microeconomics (Ch. 2)
3. Technology and Cost Relationships (Ch. 3)
4. Market Structure and Market Power (Ch. 4)
5. Price Discrimination and Monopoly (Ch. 5)
6. Price Discrimination, Product Variety, Bundling, and Tying (Ch. 6)
7. Static Games and Quantity versus Price Competition (Ch. 7)
8. Dynamic Games and First and Second Movers (Ch. 8)
9. Entry Deterrence and Predation (Ch. 9)
10. Price Fixing and Repeated Games (Ch. 10)
11. Horizontal Mergers (Ch. 11)
12. Vertical and Conglomerate Mergers (Ch. 12)
13. Advertising, Market Power, and Information (Ch. 14)
14. Research and Development (Ch. 15)
15. Patents and Patent Policy (Ch. 16)

## Grading and Course Policies

- Final Grades will be determined by:
  - Midterm Exam 1 (Friday, February 7) 15%
  - Midterm Exam 2 (Friday, March 7) 15%
  - Final Exam 30%
  - Final Paper 30%
  - Homework 10%

Grade Cutoffs are given by the table on the next page:

A	93-100%	C	73-76%
A-	90-92%	C-	70-72%
B+	87-89%	D+	67-69%
B	83-86%	D	60-66%
B-	80-82%	F	0-59% %
C+	77-79%	—	—

- **Test Policy**

I do not allow makeup tests for the midterm exams. If you miss a midterm for any reason, then the weight of that test will be added to your final exam so that your final will be worth  $30\%+15\% = 45\%$  of your total grade. (Missing both midterms would make the final worth 60% of your grade.)

It is the policy of UNC to have a mandatory final exam. You may not miss the final exam and pass the class. If you have an emergency which causes you to miss the final, then you will need to provide a documented excuse in order to be able to make it up.

You are encouraged to bring a calculator to every exam. Otherwise, you may only use a writing utensil and blank scratch paper to complete the exams. I have not yet determined the exact format of the exams, but you should assume that they will be comprehensive.

- **Homework**

**Without exception, late homework will not be accepted.** I understand that emergencies happen, so everyone will have their lowest homework score automatically dropped at the end of the semester. Should more than 1 emergency happen, I will require proper records and documentation for each emergency. Sleeping late for class, having to work, and weddings are not valid excuses for extra drops.

- **Classroom Etiquette**

Please be respectful, considerate, and professional, toward your classmates and toward me. I expect my students to show up to class prepared and on time. I do not allow laptops or other electronic devices to be used during my class, as they tend to distract from, more than facilitate, the learning process. The use of cell phones during class is prohibited.

- **Honor System**

The University of North Carolina has a proud tradition of maintaining and upholding an Honor System that binds its members, among other things, to a promise not to “lie, cheat, or steal.” As members of the university, we are all bound by the Honor Code, and I expect each of you to respect it. I will respect it as well.

## Final Paper (due on Monday, April 21.)

You are required to write a term paper of **no more than 10 pages of 12 pt., double-spaced font** to be turned in a week before the final exam. Your assignment is to consider an industry that interests you. Using real events that have occurred in that industry as examples, discuss the nature of the market that the firms in that industry face. How are their costs structured? What types of mergers are prevalent, if any? How much power do firms have to differentiate their products and choose their prices? Is advertising likely to be effective? Etc. Once you have characterized the underlying structure of the industry, you should discuss some of the regulations that it has faced over the years. Do the tools that we have discussed in class imply that those regulations are appropriate? If not, is there an important detail that those tools are missing, or were the regulations simply inappropriate to the task at hand? Finally, what regulations should be introduced to ensure that the industry further serves the interests of society as a whole?

My intent is to leave the assignment rather open-ended. You may wish to talk about an industry from a broad point of view or hone in on one of its predominant or inherent features. You may even want to focus on the actions of a single firm and write a case study. I am not looking for you to answer a specifically-defined set of questions so much as to analyze an existing market thoughtfully while utilizing some of the concepts that we have discussed in class. **The final paper is intended to be a research project.** As such, it is up to you to determine what your precise topic should be and which facts and questions are important to address.

Research projects can be daunting undertakings. To ensure that you are keeping up, I would like each of you to **schedule a time to meet with me before the second midterm to discuss potential topics.** The meeting will be informal, but I expect you to have at least one well-considered topic in mind when we meet. I am not willing to hand you a project; It is up to you to do the homework of discovering one for yourself.

**Your final paper must include citations and a bibliography** (not to be included as part of the page count.) All of the sources you cite should be legitimate academic sources. If you are unsure about the legitimacy of a source, then consult me about it. Wikipedia, though not a legitimate source in itself, is often useful at providing summaries of topics and then guiding you to more in-depth, credible sources. If you are unaware of the guidelines about when to cite, then you should consult one of the many free resources that are available online. For example, you might visit the UNC Writing Center website.

Finally, **plagiarism of any sort is prohibited.** If I discover that you have plagiarized, then I will report you to the Honor System's Office of the Attorney General for adjudication. If you are unsure about what constitutes plagiarism, then you should consult the UNC Writing Center's website to get a better sense of when to cite your sources.