Econ 468: Industrial Organization and Imperfect Competition

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1 Introduction

The course applies price theory to the behavior of “imperfectly competitive” markets (i.e. cases that fall somewhere between perfect competition and monopoly). The broad objective is to demonstrate how economic theory can be used to understand the diverse business practices and strategies encountered in real-world markets. It is designed for the student who enjoys and is adept at basic economic theory and is interested in application of the theory. While there is some discussion of public policies, such as antitrust, this is not a systematic or self-contained but is intended to help illustrate the underlying theory. This is a theoretical course, even though we might use real work business examples as illustrations. This course assumes a good knowledge of microeconomic theory and calculus.
2 Texts

The recommended texts for the class are:


*Lectures Notes for an Undergraduate Course in Market Structure and Regulation*, Ken Hendricks and Asher Wolinsky (available online)

Other textbooks:


The first edition is available online for free at


The electronic slides from the course will be posted online everyweek.¹

3 Evaluation

The course grade will be determined by:

1. 4 Problem sets (20%)
2. Midterm exam 1 (20%): October 14, 2010
3. Midterm exam 2 (20%): November 23, 2010
4. Final exam (40%): December 17, 2010 (at 7:45)
5. Full completion bonus: 5%

¹Some of this material is adapted from Ken Hendricks’ undergraduate IO course, as well as Ali Hortacsu and Julie Mortimer’ undergraduate IO classes, taught at Harvard and Chicago.
Note: Each midterm last 45 minutes (2 problems).

You can work in teams of 2 or 3 for the problem sets, as long as you clearly indicate the names of each team-member on the cover sheet. Problem sets and answer keys will be posted on the website. The midterm exams will not be rescheduled for any student for any reason. If you miss one midterm exam the final will be worth 60%. If you miss both midterms you cannot get more than 80%.

4 Course Outline

1. Introduction, review and monopoly
   (a) Introduction
   (b) Theory of the firm
   (c) Review of cost concepts
   (d) Perfect competition
   (e) Monopoly:
       i. Pricing and deadweight loss
       ii. Price discrimination
       iii. Bundling
       iv. Durable good

2. Standard models of oligopoly
   (a) Homogeneous good oligopoly
   (b) Dynamic oligopoly and collusion
   (c) Product differentiation

3. Other topics
   (a) Information and advertising
   (b) Entry
   (c) Network effects
   (d) Vertical relationships
   (e) Patents and R&D
   (f) Antitrust and government regulations
   (g) Auctions