



Department of Economics  
Stellenbosch University

### Course Outline 2020

Industrial organisation (IO) is concerned with the features and behaviour of firms in imperfectly competitive markets. The course is divided into two sections. Part 1 (presented by Prof Willem Boshoff) deals with the fundamentals of IO models and key issues in the IO literature. Part 2 (presented by Prof Nicola Theron) has a policy focus and deals with the economics and law of competition policy.

## Team

Lecturer	E-mail address	Office	Appointments
Prof Willem Boshoff	<a href="mailto:wimpie2@sun.ac.za">wimpie2@sun.ac.za</a>	Room 501, CGW Schumann Building	E-mail for appointment
Prof Nicola Theron	<a href="mailto:Nicola.Theron@fticonsulting.com">Nicola.Theron@fticonsulting.com</a>	FTI, 76 Dorp Street, Stellenbosch	E-mail for appointment

Mr Roan Minnie, PhD candidate in the Department, will also be involved in selected sessions.

The internal moderator of this course is Mr Melt van Schoor.

The external moderator is Prof Caroline Buts (Free University of Brussels).

## Class times and venue

We meet Thursday 11:00-13:00, either in Schumann Annex 1027 or online (via MS Teams).

## Assessment

The final mark will be composed as follows for honours students:

- Class participation (Boshoff) 30%
- Essay (Theron) 30%
- Exam (Boshoff) 40%

The final mark will be composed as follows for master's students:

- Class participation (Boshoff) 20%
- Essay (Theron) 25%
- Exam (Boshoff) 35%
- Essay (Boshoff/Theron) 20%

## Essay due dates

Essay for Prof Theron (Honours and Master's students): 5 October 2020

Essay for Prof Theron/Boshoff (Master's students only): 28 October 2020

## Course objectives

### Part I (Prof Boshoff)

*Objectives for all students:*

Learning objective	Task/assignment
Understand and apply standard game-theoretic models to analyze horizontal and vertical competitive outcomes in imperfectly competitive markets	Study of the literature – text books and journal articles
Understand empirical techniques to study the extent of competition and detect competition problems	Study of the literature – text books and journal articles
Apply empirical techniques to study the extent of competition and detect competition problems	Study of the literature – text books and journal articles – and completion of assignments
Ability to present and critique a concise and well-structured analysis of published research	Class presentation and participation

### Part II (Prof Theron)

Learning objective	Task/assignment
Apply law and economic theories of competition policy to practical competition problems; understand competition problems and how competition authorities deal with them	Study of the literature – text books and journal articles
Advise governments or competition authorities on the implications of particular forms of competition policy	Study of the literature, presentation and explanation of cases in class

Learning objective	Task/assignment
Ability to write a concise and well-structured essay that captures main elements of a competition problem.	Formal essay

### Additional objectives for master's students

Learning objective	Task/assignment
Ability to write a concise and well-structured essay that provides an overview of key problems in the IO literature	Formal essay

## Part I reading list (Prof Boshoff)

Each Part I lecture will be split into a 1-hour formal lecture and a 1-hour slot for class presentations and discussion.

### Lecture 1: Competition and welfare

Motta, M. 2008. *Competition policy: theory and practice*. Cambridge University Press: New York. [Chapter 2].

Audretsch, D.B. Industrial Organization and the Organization of Industries: Linking Industry Structure to Economic Performance. *Rev Ind Organ* **52**, 603–620 (2018). <https://doi.org/10.1007/s11151-018-9615-2>

Einav, L. and Levin, J. 2010. Empirical Industrial Organization: A Progress Report. *Journal of Economic Perspectives*, 24(2): 145-162.

Varian, H. 2018. Artificial intelligence, economics, and industrial organization. *National Bureau of Economic Research Working Paper* 24839.

Calvano, E., Calzolari, G. Algorithmic pricing: what implications for competition policy? *Review of Industrial Organization* 55: 155-171.

### Lecture 2: Markets I: market definition and measuring power

#### Formal lecture

Motta, M. 2008. *Competition policy: theory and practice*. Cambridge University Press: New York. [Chapter 3].

Davis, Peter and Garcés, E. 2010. *Quantitative techniques for competition and antitrust analysis*. Princeton University Press: Oxford.

#### Literature for class discussion

Lee, J. and Park, S. 2019. Price discrimination by language: field experimental evidence from a shopping mall. *International Journal of Industrial Organization* 63: 69-98.

Genakos, C. and Pagliero, M. 2019. Competition and pass-through: evidence from isolated markets. *Centre for Economic Policy Research Working Paper* DP13882.

## Lecture 3: Markets II: platforms

### Formal lecture

Belleflamme, P. and Peitz, M. 2010. *Industrial organization: markets and strategies*. Cambridge University Press: Cambridge. [Chapter 22]

### Literature for class discussion

Hunold, M., Kesler, R., Laitenberger, U. and Schlütter, F. 2018. Evaluation of best price clauses in hotel bookings. *International Journal of Industrial Organization* 61: 542-571.

Ennis, S., Ivaldi, M. and Lagos, V. 2020. Price parity clauses for hotel room booking: empirical evidence from regulatory change. *Toulouse School of Economics Working Paper 1106*.

## Lecture 4: Mergers

### Formal lecture

Davis, Peter and Garcés, E. 2010. *Quantitative techniques for competition and antitrust analysis*. Princeton University Press: Oxford.

Motta, M. 2008. *Competition policy: theory and practice*. Cambridge University Press: New York.

### Literature for class discussion

Carlton, D., Israel, M., MacSwain, I. and Orlov, E. 2019. Are legacy airline mergers pro- or anti-competitive? Evidence from recent U.S. airline mergers. *International Journal of Industrial Organization* 62: 58-95.

Yan, J., Fu, X., Oum, T.H. and Wang, K. 2019. Airline horizontal mergers and productivity: empirical evidence from a quasi-natural experiment in China. *International Journal of Industrial Organization* 62: 358-376.

## Lecture 5: Collusion I: theory

### Formal lecture

Buccirossi, P. 2008. Facilitating practices. In: *Handbook of antitrust economics*. Ed: Buccirossi, P. MIT Press: London.

Motta, M. 2008. *Competition policy: theory and practice*. Cambridge University Press: New York. [Chapter 4]

Pepall, L., Richards, D. and Norman, G. 2011. *Contemporary industrial organization: a quantitative approach*. John Wiley & Sons: New Jersey. [Chapter 10]

### Literature for class discussion

Mariuzzo, F., Ormosi, P.L. and Majied, Z. 2020. Fines and reputational sanctions: the case of cartels. *International Journal of Industrial Organization* 69. <https://doi.org/10.1016/j.ijindorg.2020.102584>

Chowdhury, S.M. and Crede, C.J. 2020. Post-cartel tacit collusion: determinants, consequences, and prevention. *International Journal of Industrial Organization* 70. <https://doi.org/10.1016/j.ijindorg.2020.102590>

## Lecture 6: Collusion II: detection and damages modelling

### Formal lecture

Belleflamme, P. and Peitz, M. 2010. *Industrial organization: markets and strategies*. Cambridge University Press: Cambridge. [Chapter 14.3]

Harrington, J. 2008. Detecting Cartels. In Buccirosi, P. (ed), *Handbook in Antitrust Economics*. Cambridge, MA: MIT Press.

Boswijk, H.P, Bun, M.J.G. and Schinkel, M.P. 2019. Cartel dating. *Journal of Applied Econometrics* 34(1): 26-42.

### Literature for class discussion

Ciliberto, F., Watkins, E. and Williams, J.W. 2019. Collusive pricing patterns in the US airline industry. *International Journal of Industrial Organization* 62: 136-157.

Huber, M. and Imhof, D. 2019. Machine learning with screens for detecting bid-rigging cartels. *International Journal of Industrial Organization* 65: 277-301.

## Lecture 7: Vertical restraints

### Formal lecture

Motta, M. 2008. *Competition policy: theory and practice*. Cambridge University Press: New York. [Chapter 6]

### Literature for class discussion

Holler, E. and Rickert, D. 2019. Upstream Collusion, Resale Price Maintenance, and Umbrella Effects: An Anatomy of the German Coffee Cartel. Working paper.

Etro, F., Marchesi, S. and Stepanova, E. 2020. Liberalizing art: evidence on the Impressionists at the end of the Paris Salon. *European Journal of Political Economy* 62. <https://doi.org/10.1016/j.ejpoleco.2020.101857>

## Lecture 8: Bargaining

TBA

## Lecture 9: Exploitative practices

TBA

## Part II reading list (Prof Theron)

### 21 years of competition law and economics in South Africa

Kelly, L. et al (2016). Chapter 1 – Building blocks, pp. 2-18. Principles of Competition Law in SA. Oxford University Press;

Buthelezi, T., Mtani, T., & Mncube, L. (2019). The extent of market concentration in South Africa's product markets. *Journal of Antitrust Enforcement*, 2019, 0, 1-13;

Competition Commission, Annual Performance Plan 2018/19. Presentation to the Portfolio Committee on Economic Development, Tembinkosi Bonakele, Commissioner, 17 April 2018.

### Abuse of dominance: theory and application

Neuhoff. Chapter 5: Abuse of Dominance (general provisions);

Case: Theron, N. M. & Boshoff, W.H. (2011). "When do vertical restraints harm competition? The economics-based approach and its application in the BATSA case".

### Abuse of dominance: exclusive dealing and multi-sided platform economics

Motta, chapter 3- Exclusive Dealing. Page 312 – 349;

Evans, D.S., Schmalensee, R. (2012). The Antitrust Analysis of Multi-Sided Platforms. (Coase-Sandor Institute for Law & Economics Working Paper NO 623, 2012);

Case: Competition Commission vs. Computicket. Case No: CR008Apr10. Reasons for Decision, 21/01/19. <https://www.comptrib.co.za/case-detail/5455>.

### Market inquiries and the role of economic analysis in competition cases

Froeb, L.M. et al (2018). Economics at the Antitrust Division: 2017-2018. Review of Industrial Organization (2018) 53:637-651;

Niels, Chapter 11. The Use of Economic Evidence in Competition Cases;

Case: The Data Services Market Inquiry: <http://www.compcom.co.za/data-market-inquiry/>.