

Industrial Organisation 771 & 871



Centre for Competition Law and Economics

Department of Economics
Stellenbosch University

Course Outline 2022

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 Nicola Theron) has a policy focus and deals with the economics and law of competition policy. Part 2 (presented by Prof Willem Boshoff) deals with the fundamentals of IO models and key issues in the IO literature.

Team

Lecturer	E-mail address	Office	Appointments
Prof Willem Boshoff	wimpie2@sun.ac.za	Room 501, CGW Schumann Building	E-mail for appointment
Prof Nicola Theron	Nicola.Theron@fticonsulting.com	NA	E-mail for appointment

Mr Wihan Marais (wihanmarais@sun.ac.za) will also be involved in selected sessions.

Online recorded tutorial sessions, on the work covered by Prof Boshoff, will be made available to assist students.

The internal moderator of this course is Prof Rachel Jafta. The external moderator is Prof Caroline Buts (Free University of Brussels).

Class times and venue

We meet Thursdays 11:00-13:00 in Room 225 of the CGW Schumann Building.

Assessment

The final mark will be composed as follows for honours (771) students:

- Class participation (symposium participation; participation in CCLE seminars) 30%
- Essay (Theron) 30%
- Exam 40%

The final mark will be composed as follows for master's (871) students:

- Class participation (symposium participation; participation in CCLE seminars) 20%
- Essay (Theron) 25%
- Exam 35%
- Essay (Boshoff/Theron) 20%

Essay due dates

Essay for Prof Theron (Honours and Master's students): 2 September 2022

Essay for Prof Theron/Boshoff (Master's students only): 21 October 2022

Course objectives

Part I (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
Ability to write a concise and well-structured essay that captures main elements of a competition problem.	Formal essay

Part II (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

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 Theron)

Application 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;

Mncube, L and Theron, NM (2022). "Competition Policy in South Africa". The Oxford Handbook of the South African Economy, Chapter 25. Edited by Oqubay, A, Tregenna, F & Valodia, I.

Changole, P & Boshoff, W.H. (April 2021). "Non-Competition Goals and their impact on South African merger control: an empirical analysis". Review of Industrial Organization 60: 361-401.

Competition Commission, Annual Performance Plan 2021/22 Based on Strategic Plan 2020-2025. Submitted to the Department of Trade, Industry and Competition on 31 March 2021. [Available: http://www.thedtic.gov.za/wp-content/uploads/Competition-Commission-2021_22-APP-and-TIDs-for-DTIC-31-March-2021.pdf].

Abuse of dominance/ vertical restraints: 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>.

Excessive pricing: economic foundations and application in SA

Boshoff, W.H. (2021). "South African competition policy on excessive pricing and its relation to price gouging during the Covid-19 disaster period". South African Journal of Economics 89(1): 112-140.

Mncube, L & Ngobese, M (2018). "Working out the standards for Excessive Pricing in South Africa". Chapter in *Excessive Pricing and Competition law Enforcement*. Editors: Katsoulacos, Y & Jenny, F.

Part II reading list (Prof Boshoff)

Lecture 1: Competition and welfare

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

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

Winston, C., 2021. Back to the Good—or Were They the Bad—Old Days of Antitrust? A Review Essay of Jonathan B. Baker's *The Antitrust Paradigm: Restoring a Competitive Economy*. *Journal of Economic Literature*, 59(1), pp.265-84.

Lecture 2: Market definition and measuring power

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.

Lecture 3: Mergers

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.

Lecture 4: Collusion

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]

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

Harrington, J. 2008. Detecting Cartels. In Buccirossi, 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.

Lecture 5/6: Vertical relations

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

Lecture 7: Platforms

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

Lecture 8: Class symposium on digital competition

In this symposium, groups are required to make submissions to the South African competition authorities on their findings about competition facing large online intermediation platforms (ecommerce marketplaces, food delivery platforms and online classifieds). The assignment attempts to mimic the focus of the Online Intermediation Platform Markets Inquiry.

Groups will each make (i) a prepared submission to respond to the Provisional Report of the Inquiry and (ii) interrogate and respond to interrogation by other groups.

Group 1: Competition in the digital intermediation sphere is healthy in South Africa. Prepared as representative of Naspers-owned platforms (Takealot, Mr Delivery and OLX / Property24).

Group 2: Competition in the digital intermediation sphere is limited or weakening in South Africa. Prepared as representative of other local digital platforms (such as Loot.co.za).

Group 3: Competition in the digital intermediation sphere is healthy in South Africa. Prepared as representative of big tech companies operating in South Africa, including Facebook Marketplace and Amazon.

Lecture 9: Bargaining

Binmore, K., 1980. Nash Bargaining Theory II. ICERD, London School of Economics, D.P. 80/14

Binmore, K., Rubinstein, A. and Wolinsky, A., 1986. *The Nash bargaining solution in economic modelling*. The RAND Journal of Economics, pp.176-188.

Froeb, L.M., Mares, V. and Tschantz, S., 2019. *Nash-in-Shapley: Bilateral Bargaining with Recursive Threat Points*. Available at SSRN 3304179.

Lu, S., Moresi, S. and Salop, S., 2007. A Note on Vertical Mergers with an Upstream Monopolist: Foreclosure and Consumer Welfare Effects.

Nash, J., 1953. Two-person cooperative games. *Econometrica: Journal of the Econometric Society*, pp.128-140.

Roth, A., 1979. *Axiomatic Models of Bargaining*. Berlin: Springer-Verlag.