University of Southern California
Department of Economics

Economics 580
Antitrust Economics and Competition Policy

Spring 2016

Class Hours: 2-3:50PM, Tuesday and Thursday, and classroom: KAP140

Instructor: Professor Guofu Tan, guofutan@usc.edu
Office Hours at KAP 334B: Tuesday 4-5PM and by appointment

TA: Chong Shu with chongshu@usc.edu and office hours at KAP 337: Tuesday & Thursday 12:30-2PM

Course Description: Microeconomic theory provides insights into how a well-functioning market system performs its role in organizing production and consumption activities of individuals in a market-oriented economy. The market system may fail to perform efficiently. For instance, market power by dominant firms can lead to inefficient outcomes. Firms may merge or collude to become dominant. A firm can gain market power legitimately but may abuse its dominant position using certain practices. Antitrust law (or broadly competition policy) is a set of government regulatory policies that deal with the creation, maintenance and abuse of market power.

This course is intended to introduce students to the economics of antitrust and competition policy, offering some basic analytical tools from the field of industrial economics and applying these to the enforcement of antitrust laws or competition policy. A number of antitrust cases and industry studies will be covered in the course. Complementary to regular lectures and discussions, in-class presentations by students will be an important part of this course. We may also invite experts from the industry and government enforcement agencies to present in class.

Prerequisites: Economics 500, or Economics 503, or equivalent. Any course on industrial organization would be extremely helpful.

Requirement: Several problem sets (25%), a midterm examination (25%), a research paper (25%), and class participation and presentation (25%).

a) Problem sets will be assigned regularly.
b) The midterm exam will be on March 10th.
c) The requirement for a research paper by each student will be discussed during the semester. A research proposal will be due by March 31st. The final paper should be submitted before May 5th.

d) A group of 2 students will select and present one paper (published or working paper) or a case study carefully in class (for about 45 minutes). A list of papers and case studies will be suggested during the semester. You may select your own papers and cases, subject to approval. Students are expected to ask questions and make comments during each presentation.

e) Participants are expected to read regularly newspapers (e.g., *The Los Angeles Times, The New York Times, Wall Street Journal*) and magazines (e.g., *Business Week*, and *The Economist*) for current news and debates on business strategies and public polices toward businesses, which will be discussed in class.


Other reference books include:


**Topics and References** (subject to changes, supplementary materials will be added, and may not follow the order exactly):

1. Efficiency, Market Failure, and Government Regulation: An Introduction
   
   Motta, Chapter 1

2. Some Basics for Antitrust Economics and Competition Policy Analysis
   
   Market power and welfare
   Sources of market power and barriers to entry
   Market definition and the assessment of market power
3. The Economics of Business Strategies

Product differentiation, Price Discrimination, Bundling and Tying
Resale Price Maintenance and Other Vertical Restraints
Contract as a Barrier to Entry, Raising Rivals' Costs


4. Collusion and Agreements among Horizontal Competitors

Issues: Explicit collusion and tacit collusion, bid-rigging, social costs of collusion, conditions that facilitate collusion, the benefits of cooperation, strategic alliances, estimating damages from price-fixing


Motta, Chapter 4.


5. Horizontal Mergers

Issues: Benefits and costs of mergers, unilateral market power and coordinated effect, simulating mergers to predict their effects, measuring efficiencies of mergers, merger enforcement guidelines, and welfare standards

Motta, Chapter 5.


6. Vertical Mergers and Vertical Restraints

Practices and issues: Double marginalization, demand-enhancing services, non-linear pricing, resale price maintenance, exclusive territories, exclusive dealing, refusals to deal, and vertical mergers


Motta, Chapter 6.


7. Predation, Exclusive Dealing, Tying, and Other Abusive Business Practices

Practices and issues: Predatory pricing, exclusive dealing, bundling and tying, price discrimination, exclusion, and raising rivals' costs

Cases: Standard Oil (1911), American Airline, Microsoft, Chicken Delight (1972).

Motta, Chapter 7.


8. Other Case studies

9. (Optional) Regulating Natural Monopolies: Theory and Practices


10. (Optional) Regulation and Deregulation

STUDENTS WITH DISABILITIES: Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure that the letter is delivered to me (or the TA) as early in the semester as possible. DSP is open Monday-Friday, 8:30-5:00. The office is in Student Union 301 and their phone number is (213) 740-0776.

Statement on Academic Integrity: USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect ones own academic work from misuse by others as well as to avoid using another work as ones own. All students are expected to understand and abide by these principles. Scampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A: http://www.usc.edu/dept/publications/SCAMPUS/gov/. Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: http://www.usc.edu/student-affairs/SJACS/.