Seattle University
Economics 4690: Market Power and Response

Spring 2018
Tuesday & Thursday, 1:30 p.m. – 3:35 p.m.
Pigott 203

Syllabus

Dr. Brian Kelly
405 Pigott Hall
Office Hours: 10:15 – 12:15, Tuesday and Thursday
I am flexible with respect to appointments outside of office hours.

E-mail: kellybr@seattleu.edu

First class: Tuesday April 3
Finals week time slot: Wednesday, June 13, 12:00 – 1:50

Course Content

How do firms gain market power? How does a firm earn economic profits?

What reactions do market power and economic profits provoke among customers, among suppliers, and among potential competitors?

Can economic profits be maintained, or does competition eventually destroy them?

Ethically, should economic profits be maintained? As a society, how do we feel about economic profits at the individual firm level, at the level of market, or at a broader level that considers all of the affected parties?

Can we identify, logically and empirically, regularities in strategies of anticipation, action, and reaction when firms battle to create or maintain economic profits?

What types of government reaction does market power provoke? What are the motivations for, and consequences of, government intervention to address market power?

These questions are closely related. When we study market power, we are combining the descriptive and analytic power of economics with guidance for business and public policy decision-making.

Course Format

Class time will be a combination of lecture, discussion, in-class exercises, and student team presentations.
Schedule

I have attached a schedule for the first half of the course at the end of this syllabus. This may change slightly as we decide to delve into some topics less or more.

Substantively, we can divide the material into the following areas:

A  Defining firms, markets, and industries.
B  The individual firm: developing and exercising market power
C  Response: suppliers, customers, competitors & partners,
D  Response: the evolving structure, conduct, and performance of industries
E  Response: antitrust and competition policies

Readings

Stephen Martin (2010), Industrial Organization in Context, ISBN 978-0-19-929119-9, Oxford University Press, will serve as the principal text. Also, download the text by Jeffrey Church and Roger Ware (search for “Church and Ware industrial organization” – the bepress link is very fast); it is free, but read the terms of use on the second page. Church & Ware will be our resource for some of the technical material.

There will be additional readings throughout the term. Whenever possible, I will post these on electronic reserve with Lemieux or will provide a link.

Minimum Background

Economics 2110 (Microeconomic Principles) is the pre-requisite for this course; Economics 3110 (Intermediate Micro) is recommended. We will use differential calculus frequently, albeit not in great depth; if you have not been exposed to calculus before, you will need to put in a little time to learn the basic differentiation rules and concepts.

University Resources and Policies

- Library and learning commons ... https://www.seattleu.edu/learningcommons/ Resources include the Research [Library] Services, Learning Assistance Programs, Writing Center, and Math Lab.
- Academic integrity tutorial ........ https://www.seattleu.edu/academicintegrity/
- Academic policies .................. https://www.seattleu.edu/policies/ Academic Integrity Policy, Academic Grading Grievance Policy, and the Performance Criteria for the Albers School of Business & Economics Policy.
- Disabilities services ............... https://www.seattleu.edu/disabilities-services/ If you have, or think you may have, a disability (including an ‘invisible disability’ such as a learning disability, a chronic health problem, or a mental health condition) that interferes with your performance as a student in this course, you are encouraged to arrange support services and/or accommodations through Disabilities Services staff in Loyola 100, (206) 296-5740. Disability-based adjustments to course expectations can be arranged only through this process. You are responsible for seeking help in a timely fashion to obtain disability-based adjustments to course expectations.
Assignments and Grading

Apart from the problem sets and initial short presentations, much of the graded work will occur late in the term. This is unavoidable, since you have to have a good knowledge base for the panel discussions and the term paper. Please plan accordingly and try to begin work on the term paper early.

Problems sets (25% of overall grade): There will be five of these, equally weighted in the overall grade.

Short presentations (5% of overall grade): These will be short extensions of the class material, akin to presenting the solution to a problem set exercise. Student teams of 2 or 3 will begin presentation early in the term.

Panel discussions (20% of overall grade): You will participate in a panel discussion, late in the term. This will involve two teams taking opposite sides on a case. The cases will concern recent or contemporary government antitrust or competition actions. The purpose will be to educate the class on the facts and issues, while using the concepts of the course to support a particular perspective.

Term paper (30% of overall grade): This will be a research paper concerning how the supply side of a market is reacting to change. You will choose the industry; your audience is me. Your task will be to convey a good understanding of the economic issues in the industry using the tools learned in this course. I anticipate that papers will be around 3000 – 4000 words in length, exclusive of equations, graphs, and appendices. You should aim at a quality that would allow you to use this paper as a writing and research sample for a future employer or for a graduate application.

Final exam (20% of overall grade): This will concern the models and empirical data covered in the class, overlapping heavily with the material of the problem sets.

Participation will not be formally graded, but I expect everyone to attend class and to participate in discussions; in close cases, participation can raise your course grade.

Communications and Course Materials

I will communicate by Canvas announcements for the class and individual e-mails. E-mail sent directly from your SU account is a good way to contact me as well. Course materials will be posted on Canvas; this does not include copyrighted articles, which you will access through Lemieux reserves, electronic versions of journals, or internet links.

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<th>Week</th>
<th>Tuesday</th>
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<td>Week 1</td>
<td>April 3</td>
<td>April 5</td>
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<tr>
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<td>Scope of the course</td>
<td>Defining an “industry” or “market”</td>
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<td>The business firm: what, why, how big, how many …</td>
<td>Data and data sources</td>
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<tr>
<td></td>
<td>Read Martin 10.5, pp. 361-66</td>
<td>Read Coase Sections 1 &amp; 2</td>
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<td>Problem set 1 available</td>
<td>See Reading Guide 1</td>
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<td>Week 2</td>
<td>April 10</td>
<td>April 12</td>
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<td>The study of market power and “industrial organization”. Firm cost structures and their implications.</td>
<td>Basic market models. Sources of market power. The single firm’s use of market power.</td>
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<td>Read: Martin Chapter 1</td>
<td>Read Martin Chapter 2; 8.1 - 8.3</td>
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<td>Problem set 1 due</td>
<td>See Reading Guide 2</td>
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<td>Week 3</td>
<td>April 17</td>
<td>April 19</td>
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<td>The single firm’s use of market power (continued). Classic models of oligopoly.</td>
<td>Classic models of oligopoly.</td>
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<td>Read Martin 3.1, 3.2, 3.3, 3.4</td>
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<td>Problem set 2 available</td>
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Economics 4690
Market Power and Response, Spring 2018, Schedule for First 3 Weeks
Schedule as of March 9, 2018