



THE UNIVERSITY OF TEXAS AT AUSTIN

ECO 395K: INDUSTRIAL ORGANIZATION
(35535 / 35538)

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Description: This is a course in Industrial Organization that covers the way markets are configured, how many firms exist, how they relate to each other, and how this interaction affects production, pricing, investment, advertising, and other managerial decisions. This is an advanced course that covers both theory and introduces students to practical methods commonly used in consulting and antitrust enforcement. Although we cover some econometric methods this is, mostly, an applied theory course.

We read and discuss many real antitrust cases to motivate the material that we then cover more in depth. Institutional knowledge (in addition to math and econometrics) is very important in industrial organization and by the end of the semester students should have become familiar with some of the most significant decisions that have shaped policy towards large (and small) firms in the U.S.

For those of you looking for a career in consulting, knowledge of cases and how theory is implemented in practice is invaluable. The same goes for those pursuing an academic career, which in IO requires blending your knowledge of methods with institutions and policies in the real world. The most effective way to develop an interesting research agenda in industrial organization is to study the effect of some policy or regulation on a particular industry and then use your theory/econometric toolbox to produce solid research papers. Structural econometrics that you will learn in your Ph.D. will allow you to evaluate counterfactuals, i.e., the hypothetical behavior of a market under different conditions, what lawyers call the but-for-world.

Hopefully, this course will provide a robust first approximation to an exciting area of applied research (with tons of professional opportunities).

Lectures: Tuesdays and Thursdays, from 9:30 to 11:00 in BRB 2.136.

Office Hours: Tuesdays, from 14:00 to 17:00 at BRB 3.134A. If you need to meet via Zoom, please send me an e-mail in advance to schedule the meeting during this time frame. I rarely use the e-mail at CANVAS so please write to my regular e-mail at eugenio@utexas.edu.

T.A.: Nathan C. Hattersley, nhattersley@utexas.edu; Office Hours: Tuesdays from 12:00 to 14:00 in BRB 3.146.

Textbooks:

The Theory of Industrial Organization, by Jean Tirole, MIT Press, 1989. (Required)

Quantitative Techniques for Competition and Antitrust Analysis, by Peter Davis and Eliana Garcés, Princeton University Press, 2010. (Recommended)

The Antitrust Revolution, by J. Kwoka and L. White, Oxford University Press, 6th Edition, 2014; and 7th Edition, 2019.

Instead of buying several editions of the Kwoka-White book, you should purchase the course packet at the UT McCombs Copy Center or through UT Line Store (<https://utlinestore.utexas.edu/>) by typing my name or the course number in the search tool bar (try this link (<https://utlinestore.utexas.edu/search?q=35535>)). The packet includes all cases that we will discuss in class. If there are any issues with this packet, please contact Melissa Lopez at melissa.lopez@austin.utexas.edu at the UT Copy Center.

Outline of the Course: The main topics covered in this course are the following (approximately one per week) – This is just an intended schedule. It is subject to change depending on how effective we are in covering each topic:

- Week 01 – Introduction to Antitrust.
- Week 02 – Tirole (1): Monopoly.
- Week 03 – Tirole (2): Product Selection, Quality, and Advertising – KW7: LCD – KW7: Microsoft.
- Week 04 – Davis (4): Market Definition – KW6: Oracle. – KW6: Evanston Northwestern.
- Week 05 – Tirole (3): Price Discrimination – KW4: Brand Name Prescription Drugs.
- Week 06 – Tirole (4): Vertical Control – KW7: Tesla – KW6: Leegin.
- Week 07 – Tirole (5): Short-Run Price Competition – KW4: Airline Tariffs.
- Week 08 – Tirole (6): Long-Run Price Competition – KW7: Ebooks.
- Week 09 – Davis (6): Identification of Conduct – KW7: Hertz.
- Week 10 – Tirole (7): Product Differentiation – KW7: Dental Examiners.
- Week 11 – Tirole (8): Entry, Accommodation, and Exit – KW7: Spirit Airlines.
- Week 12 – Davis (5): Market Structure and Price – KW7: Staples.
- Week 13 – Davis (7): Damage Simulations – KW6: Lysine.
- Week 14 – Davis (8): Merger Simulations – KW6: Delta-Northwest.

Teaching Approach: The typical unit begins with the discussion of one antitrust case. Once we cover the student presentation, I move on to study some of the underlying theoretical issues in detail. Each topic should take approximately a week. I prepare presentations of every topic and I (generally) post them prior to covering them in class. Please check CANVAS regularly. I post all the course materials there. It is advisable that students read the assigned material ahead of time, particularly as you attempt the problems in the text of Tirole's book. Although this course will be taught in person, we might sporadically use remote instruction due to scheduling conflicts or depending on the evolution of the UT health guidance.

Case Presentations: Depending on the number of registered students, one or two students will prepare a few slides to summarize and present an antitrust case in class. I will allocate cases randomly during the second week of the semester. If two of you are assigned to the same case, you should coordinate in writing the slides and presenting them. You can split your roles as you wish. Both of you will get the same mark for your joint work. All of you will receive feedback from me by the end of the semester explaining your score.

Take these presentations as an opportunity to learn about many institutional issues surrounding antitrust. Do some research but do not anticipate every single theoretical argument that I will likely cover later in class. Cases are sometimes only loosely related to the topic at hand. This is the result of a mismatch between the interests of academic economists and the antitrust practice. Sometimes we have several cases related to a particular topic while for others, it is difficult to find a case that aligns well with the formal theoretical analysis.

You should prepare your slides and send them to me by 10:00 pm on the night before of your presentation. I will make them available to your classmates before class so that they can follow the material. Aim for a presentation between **15-20 minutes** and no more than **10-15 slides**. You should identify the relevant components of the case:

- What is the case about?
- Who participated?
- When did it take place?
- Where?
- What is the economic question?
- How was the case analyzed (methods, data, etc)?
- Why was the case analyzed in this way?
- What were the main arguments of the parties involved?
- How did they support these arguments?
- What was the outcome of the case?
- What was the main argument that explains the outcome?
- If the outcome involved remedies, what were these?

DO NOT READ your presentation. Be spontaneous and engaging but avoid colluding with the audience on pre-arranging questions. That kind of collusion is easily identified.

Presentations should be in person. I encourage active participation by the audience to challenge the presenters. Remember that 10% of your grade corresponds to "Participation in case discussions."

Homework: There are several problems sets, approximately every three weeks. I assign problem sets from Tirole's book aimed for students to learn the material more in depth. You should attempt problems in groups of up to four students. You will submit only one set of solutions per group and all students will receive the same grade. Start looking for partners and do not think that you can do it all by yourself. These problems are demanding but will help you learn and assimilate the material covered in class. You should have about two weeks to complete each assignment, which are due always at the beginning of the lecture (via Gradescope). No late assignments will be accepted.

Approximate Homework Due Day Schedule:

1. Th., February 5th.
2. Th., March 5th.
3. Tu., March 31st.
4. Tu., April 21st.

Please, submit pdf files with your assignments through Gradescope. You do not need to type your assignments unless you want to. Feel free to submit pdf copies of your handwritten assignments if you prefer. Simply scan (one copy per group) using a phone app such as ClearScanner (or whatever else is easier for you to generate pdf copies).

Quizzes: There are three, in class, short exams scheduled for **February 12th, March 12th, and April 23rd**. These short exams are very applied and aimed to test your understanding of the material. It is NOT the hard, Tirole's questions, but simple (e.g., linear demands) problems aimed at measuring your ability to apply basic concepts to real-life situations. The exams are open book / open notes. However, you are not allowed to use any assistance from any other person or the internet (including but not limited to search engines). There will be no make-up dates. If you miss

an exam due to a medical condition and you provide an official justification, your other exams will carry the total weight of this assignment.

Participation: I encourage you to attend lectures and participate actively. Do not hesitate to ask any questions you may have. Class participation will be considered towards the final grade.

Grading: Problem sets 40%; case presentation 15%; exams 25%; participation in case discussions 10%; class participation 10%. I will use plus/minus grade categories when assigning final grades (i.e. A, A-, B+, B, B-,... F). Grades will be curved, meaning that your letter grade will be assigned based on your weighted average course score and your performance relative to the rest of the class.

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Gradescope: I use Gradescope (<http://gradescope.com/>) for all exams and assignments. You need to have an account with Gradescope to log in. If you have not used Gradescope before, I suggest you give it a try as soon as possible to familiarize yourself with it.

No Electronics Policy: I allow for the use of tablets and ipads *exclusively* as support for this class (following cases, slides, etc). Use them facing up on your desk to take notes. Phones are not allowed in class, neither hiding behind a laptop. Not observing this policy during class (watching videos or the news during class) will affect your participation grade negatively. Video or sound recordings of lectures are not allowed.

Honor Code: The core values of the University of Texas at Austin are learning, discovery, freedom, leadership, individual opportunity, and responsibility. Each member of the university is expected to uphold these values through integrity, honesty, trust, fairness, and respect towards peers and community. Suspicion of improper behavior will be reported to Student Judicial Services.

To inquire about the University Code of Conduct and Student Honor Code, please visit the website of the Office of the Dean of Students at: <https://deanofstudents.utexas.edu/conduct/standardsofconduct.php>.

ADA Notice. Students with a documented disability have the right to request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities (SSD) at <http://ddce.utexas.edu/disability/about/>.

Senate Bill 212 and Title IX Reporting Requirements. Under Senate Bill 212 (SB 212), the professor and TAs for this course are required to report for further investigation any information concerning incidents of sexual harassment, sexual assault, dating violence, and stalking committed by or against a UT student or employee. Federal law and university policy also require reporting incidents of sex- and gender-based discrimination and sexual misconduct (collectively known as Title IX incidents). This means we cannot keep confidential information about any such incidents that you share with us. If you need to talk with someone who can maintain confidentiality, please contact University Health Services (512-471-4955 or 512-475-6877) or the UT Counseling and Mental Health Center (512-471-3515 or 512-471-2255). We strongly urge you make use of these services for any needed support and that you report any Title IX incidents to the [Title IX Office](#).

Sharing of Course Materials is Prohibited. No materials used in this class, including, but not limited to, lecture handouts, videos, assessments (quizzes, exams, papers, projects, homework assignments), in-class materials, review sheets, and additional problem sets, may be shared online or with anyone outside of the class (or in future classes) unless you have my explicit, written permission. Unauthorized sharing of materials promotes cheating. It is a violation of the University's Student Honor Code and an act of academic dishonesty. I am aware of the sites used for sharing materials, and any materials found online that are associated with you, or any suspected unauthorized sharing of materials, will be reported to Student Conduct and Academic Integrity in the Office of the Dean of Students. These reports can result in sanctions, including failure in the course.

Antitrust Cases:

Below are the readings of Kwoka and White. KW7 indicates that the chapter is included in the seventh edition. All others are referred to the latest edition where they appear.

Introduction to Antitrust

1. K.B. Leffler and C.J. Santesteban: *"The LCD Conspiracy: The Sherman Act, Beyond a Reasonable Doubt, and Issues of Extraterritoriality"* (2014) – KW7, pp. 312-330.
2. D.L. Rubinfeld: *"Maintenance of Monopoly: U.S. v. Microsoft"* (2001) – KW7, pp. 514-534.

Market Definition

3. R.P. McAfee, D.S. Sibley, and M.A. Williams: *"Oracle's Acquisition of PeopleSoft: U.S. v. Oracle"* (2004) – KW6, pp. 144-165.
4. D. Haas-Wilson: *"Revisiting a Merger: FTC v. Evanston Northwestern Healthcare"* (2007) – KW6, pp. 117-143.

Price Discrimination

5. K.G. Elzinga and D.E. Mills: *"The Brand Name Prescription Drugs Antitrust Litigation"* (1999) – KW4, pp. 301-320.

Vertical Control

6. F.S. Morton and A. McDermott: *"Retail Auto Sales: Tesla v. State Vehicle Franchise Laws"* (2017) – KW7, pp. 401-422.
7. K.G. Elzinga and D.E. Mills: *"Resale Price Maintenance Wins a Reprieve: Leegin v. PSKS"* (2007) – KW6, pp. 435-457.

Short-Run Price Competition

8. S. Borenstein: *"The Airline Tariffs Publishing Case"* (1994) – KW4, pp. 233-251.

Long-Run Price Competition

9. J.B. Baker: *"The Ebooks Case against Apple"* (2013) – KW7, pp. 471-488.

Identification of Conduct

10. M.J. Doane, L.M. Froeb, G.J. Werden, D.M. Zimmer: *"Hertz—Dollar Thrifty: Fixing a Merger to Avoid Litigation"* (2012) – KW7, pp. 87-102.

Product Differentiation

11. J.E. Kwoka, Jr.: *"Agreeing to Exclude: North Carolina State Board of Dental Examiners"* (2015) – KW7, pp. 250-268.

Entry, Accommodation, and Exit

12. K.G. Elzinga and D.E. Mills: *"Predatory Pricing in the Airline Industry: Spirit Airlines v. Northwest Airlines"* (2005) – KW7, pp. 354-400.

Market Structure and Price

13. S. Dalkir and F.R. Warren-Boulton: *"Prices, Market Definition, and the Effects of Merger: Staples, Office Depot, and Office Max"* (1997, 2015, and 2016) – KW7, pp. 189-210.

Damage Simulations

14. J.M. Connor: Global Cartels Redux: *"The Lysine Antitrust Litigation"* (1996) – KW6, pp. 336-368.

Merger Simulations

15. M. Israel, B. Keating, D.L. Rubinfeld, and R.D. Willig: *"The Delta—Northwest Merger: Consumer Benefits from Airline Network Effects"* (2008) – KW6, pp. 576-601.

Antitrust Cases Timetable (subject to possible changes):

The following is the revised approximate schedule only.

1. "LCD" – Expected Tu 01/27 – X & Y.
2. "Microsoft" – Expected Tu 02/03 – X & Y.
3. "Oracle" – Expected Tu 02/10 – X & Y.
4. "Evanston Northwestern" – Expected Tu 02/17 – X & Y.
5. "Brand Name Prescription" – Expected Tu 02/24 – X & Y.
6. "Tesla" – Expected Tu 03/03 – X & Y.
7. "Leegin" – Expected Tu 03/10 – X & Y.
8. "Airline Tariffs" – Expected Tu 03/24 – X & Y.
9. "Ebooks" – Expected Tu 03/31 – X & Y.
10. "Hertz" – Expected Th 04/02 – X & Y.
11. "Dental Examiners" – Expected Tu 04/07 – X & Y.
12. "Spirit Airlines" – Expected Th 04/09 – X & Y.
13. "Staples" – Expected Tu 04/14 – X & Y.
14. "Lysine" – Expected Tu 04/16 – X & Y.
15. "Delta-Northwest" – Expected Th 04/21 – X & Y.