

Econ 327: Industrial Organization
Moravian College, Fall 2013
Department of Economics and Business

Professor: Dr. Sabrina Terrizzi

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Office Hours: Tuesdays: 9:15 am – 11:15 am, Thursdays: 1:15 pm – 3:15 pm,
or by appointment

Meeting Times: Mondays, Wednesdays 1:10 pm – 2:20 pm

Class Location: Comenius Hall Room 005

What is this course all about? This course is the study of the theory and practice of pricing by firms. We will analyze a variety of industries and pricing models to gain a deeper understanding of what drives price, quality, advertising, and other firm decisions across industries. Discussion of empirical studies, current policy debates, and the relevance and limits of the economic approach will be emphasized.

Essentially, we will use economic analysis to help us understand how firms make pricing decisions and how they determine their competitive advantage in a market. Emphasis is on the economics and not politics or personal opinions. The goal of this course is for you to be able to analyze firm decisions using the tools and perspectives of an economist.

What I am required to read?

Modern Industrial Organization, 4th Edition, Carlton, Dennis W. and Jeffrey M. Perloff, Pearson Addison-Wesley, c. 2005.

ISBN: 0-321-18023-2

The Structure of American Industry, 12th Edition, James Brock, Waveland Press, Inc., Illinois, c. 2009, reissued 2013.

ISBN: 1-4786-0549-2

Several websites have excellent and regular information on economic articles relevant to classroom discussion.

New York Times: <http://www.nytimes.com/>

Wall Street Journal: <http://online.wsj.com/public/page/news-economy.html>

The Economist: www.economist.com

Other relevant readings and course materials will be posted on the Blackboard site for this class. Please check Blackboard regularly.

What preparation do I have to have? Economics 152 and 225

How will I be assessed?

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|-----------------------------|-----|
| Exams (2) | 20% |
| CPAs | 30% |
| Industry Analysis | 20% |
| Journal | 10% |
| Virtual Profit-Seeking Game | 10% |
| Class Participation | 5% |
| Discussion Forum | 5% |

What are the learning outcomes for this course?

- Understand how microeconomic models can be used to explain industry structure and outcomes
- Analyze and compare the structure, conduct, and performance of a variety of industries
- Perform an industry analysis using the theoretical tools learned in the course
- Develop critical thinking and problem solving skills as they relate to economic analysis in the industrial sector

***What schedule will we follow in this course?**

| Week: | Topic: | Assignments Due: |
|--|--|--|
| 1: Aug. 26, 28 | Review Basic Economic Market Structures: Ch.: 1 & 2 | CPA 0: Due Aug. 28 Syllabus Signature Sheet Due Aug. 28 |
| 2: Sept. 4 (no class Sept. 2) | Perfect Comp., Residual Demand, Efficiency, Externalities: Ch. 3 | CPA 1: Due Sept. 4 |
| 3: Sept. 9, 11 | Entry & exit, Monopoly, Monopsony: Ch. 3 & 4 | CPA 2: Due Sept. 11 |
| 4: Sept. 16, 18 | Dominant firms & Comp. Fringe: Ch. 4 | CPA 3: Due Sept. 18 |
| 5: Sept. 23, 25 | Cartels: Ch. 5 | CPA 4: Due Sept. 25 |
| 6: Sept. 30, Oct. 2 | Oligopolies: Ch. 6 | Journal: Due Oct. 2 3 entries (5 entries if taking as WI) |
| 7: Oct. 7, 9 | Multi-period games: Ch. 6 | Exam 1: Oct. 9 |
| 8: Oct. 16 (no class Oct. 14) | Differentiation, representative consumer model: Ch. 7 | Initial Industry Analysis: Due Oct. 16 |
| 9: Oct. 21, 23 | Location models, Quality choice: Ch. 7; VCR | CPA 5: Due Oct. 23 |
| 10: Oct. 28, 30 | Industry structure and performance: Ch. 8; VCR | CPA 6: Due Oct. 30 |
| 11: Nov. 4, 6 | Strategic behavior, Predatory pricing: Ch. 11; VCR | |
| 12: Nov. 11, 13 | Limit pricing: Ch. 11 | VCR Analysis: Due Nov. 13 |
| 13: Nov. 18, 20 | Innovation; Patents, Market structure: Ch. 8 | Exam 2: Nov. 20 |
| 14: Thanksgiving Break (no class Nov. 25, 27) | Thanksgiving Break | |
| 15: Dec. 2, 4 | Industry Analysis Presentations | Journal: Due Dec. 4 4 entries (6 entries if taking as WI) |
| Final: Dec 9 @ 1:30 pm | Industry Analysis Presentations | Final Report Due: Dec. 9 by 1:30 pm |

CPA assignments will be listed on Blackboard at least one week prior to their due dates.
Textbook references detailed above are for Carlton and Perloff.

*Tentative schedule, subject to change with notice.

What are your classroom policies?

1. Attendance is expected at each class period. Class participation is an essential aspect of this course. Absences will result in a decreased grade in the class due to lack of participation ability.
2. As a common courtesy for your fellow students and myself, I expect students to be on time.
3. I do not allow cell phone use in class.
4. Violations of the Moravian College Academic Honesty Code will not be tolerated.
5. Late assignments are not accepted and a grade of zero is recorded. Please be cognizant of the due dates for each assignment. No exceptions will be made to accommodate late work.
6. Part of your responsibility as a Moravian student is to attend classes and to take notes. This is an essential part of the learning process. I will therefore not post extensive lecture notes online. Also, note that this course will be fairly intense, so it is essential that you do not fall behind in your readings.
7. I do not give makeup exams. If you miss an exam (in the event of an excused absence), the percentage from the missed exam will be added to the other exam. If you miss an exam without an excused absence, you will receive a grade of zero on that exam.
8. The final report is due at the final exam date and time assigned by the registrar. We may need to complete final presentations during the final exam period. If this is the case, attendance is required at this class period.
9. Students who wish to request accommodations in this class for a disability should contact Elaine Mara, assistant director of learning services for academic and disability support at 1307 Main Street, or by calling 610-861-1510. Accommodations cannot be provided until authorization is received from the Academic Support Center.
10. I recommend use of the writing center, as need, for completion of course assignments. The Writing Center is located in a building that is not accessible to persons with mobility impairments. If you need the services of the Writing Center, please call 610-861-1392.
11. I do not offer extra credit.

The following pages detail specific information regarding each assessment. More details will be provided as due dates and quiz dates approach.

EXAMS

Exams are meant to assess your knowledge of concepts covered in class. They will consist of a combination of empirical and qualitative analysis of market structures and pricing strategies analyzed in this course. Each exam will cover specific topics that I will announce a few class periods before the assessment. You may need calculators for some exams. Simple four-function calculators are the only type of calculator permitted during exams. You cannot share calculators. Cell phones may not be used as calculators, nor for any other purpose during an exam. Exam dates are listed above, and make-ups will not be given.

Sometimes a student will disagree with a grade assigned to a particular question. This is a legitimate concern and will be addressed in the following procedure. To have an answer re-evaluated, the student must submit a written request for a re-evaluation. This request should identify the question in dispute, provide a written explanation why the student feels the question was incorrectly evaluated, and propose a suggested remedy. It is within the instructor's purview to apply qualitative judgment in determining grades for an assignment or for a course. The following dates represent the deadline for grading appeals (appeals received after the below-stated dates will not be reviewed):

Exam 1: Oct. 23

Exam 2: Dec. 4

COURSE PREPARATION ASSIGNMENTS

Course preparation assignments (CPAs) are designed to facilitate discussion in the classroom. You will be required to prepare weekly CPAs according to the schedule detailed above. Topics and response requirements will be detailed each week on Blackboard.

Your CPA must be submitted to Blackboard before class begins! The CPAs are due via Blackboard by 1:00 pm on the due date listed above. You are also required to bring a copy of your CPA to class on the date it is due, so you can reference it during classroom discussion.

CPAs will include a review of a current article related to the weekly topic of discussion. Discussion or empirical analysis of specific economic points will be required.

I will randomly select a student to lead the class discussion corresponding to the CPA assignment on the date it is due. Each student should come prepared to facilitate the discussion on that topic. Your facilitation of class will represent half of your class participation grade.

INDUSTRY ANALYSIS

An important outcome of this course is an enhanced understanding of the economic theory explaining the price, quality, and advertising decisions that firms make. The capstone assignment for this course is a complete industry analysis of an industry of your choice. You will work in teams of 2-3 to complete the analysis. Each team will choose one industry from *The Structure of American Industry* by James Brock (industry choices outside this text must be pre-approved). Over the course of the semester, each student will become the resident expert of that industry (i.e. understand market structure, pricing models, product differentiation methods) and share that information with the class. The corresponding chapter in *The Structure of American Industry* will serve as the basis for your research. Additional references will include newspaper and academic articles, as well as class discussions. Details regarding each phase of the analysis will be discussed in class as the course progresses.

JOURNAL FOR INDUSTRIAL ORGANIZATION

Collect and analyze newspaper or magazine articles relating to different economic issues faced by firms in your chosen industry. Each article should be related to the industry for which you are becoming our resident expert. The analysis of each article should:

1. indicate what specific economic concept(s) is (are) discussed in the article;
2. demonstrate an understanding of the concept(s); and
3. demonstrate why this article is a good example of the concept(s).

The following “rules” apply:

- Articles must have appeared in print since the beginning of the semester (Cartoons are eligible).
- Source and date of each article must be indicated. All types of magazines and newspapers are eligible.
- The analysis of each article is limited to a maximum of two pages, not including the graphs.
- Journals will be collected and reviewed at different dates during the semester. Between those due dates, you are expected to keep current on your industry.

Journals will be graded on:

- Quality of the analysis of each article.
- Appropriateness of the articles selected.
- Appropriate use of graphs, where relevant.
- Diversity of topics covered in the articles.
- Overall presentation of the materials.

Journals are due at the beginning of class on the date listed above. Late journals will not be accepted.

DISCUSSION FORUM

Students are expected to collect current events related to the pricing strategies and competitive forces in their chosen industry on a weekly basis throughout the semester. Because the journals will only be collected and reviewed twice during the semester, we will use the discussion forum on Blackboard in order to facilitate continual discussion on these topics. Students are expected to continually monitor this forum and are required to post to this discussion forum weekly. Each week, students should post an interesting anecdote about their current event and respond to another student's post. We will discuss details of posting etiquette and requirements during class on Wednesday, August 28.

CLASS PARTICIPATION

Class participation accounts for five percent of your final grade. Simply attending class will earn students an approximate participation grade of 75%. Students can marginally improve their participation grade through "passive participation", which implies attending class, taking notes, and being attentive. Students can substantially improve their participation grade through "active participation", which includes volunteering thoughtful questions and answers on a regular basis. Students who choose not to attend class will receive a participation grade lower than a 75%. Additionally, there will be surprise assessments on a regular basis to check students' understanding of certain topics. Successfully completing these assessments will also improve a student's participation grade.

VIRTUAL PROFIT-SEEKING GAME (VCR)

The virtual profit-seeking game is a web-based game of competition between firms. It involves making decisions on pricing, product location, and investments for your multi-product firm. Your grade will be based on the value of your firm at the end of the game and a report describing how and why you made your decisions. More details regarding the timing of the game and deliverables related to the game will be provided as class progresses.

CPAs, scrapbooks, journals, and the VCR analysis will be graded according to the following scale:

- 5: Excellent, response includes clear and complete thoughts and a detailed, accurate analysis
- 4: Good, response contains fully developed ideas, but the understanding of the concepts is slightly confused
- 3: Fair, response is not fully developed and understanding of the concepts is not evident
- 2: Poor, response is incomplete and analysis is missing or totally inaccurate
- 1: Unacceptable, response is unintelligible and lacks proper analysis and thought development
- 0: Late or missing