

Econ 327: Industrial Organization
Moravian College, Spring 2015
Department of Economics and Business

Professor: Dr. Sabrina Terrizzi

Office Location: Comenius Hall 212

Office Phone: 610-625-7937

E-mail: terrizzis@moravian.edu

Office Hours: Tuesdays: 10 – 11:30 am; Thursdays: 1:30 – 3:30 pm; or by appointment

Meeting Times: Mondays, Wednesdays 11:45 am – 12:55 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.

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 health and health-economics related issues. As you peruse various links, be sure to verify the credentials of each author. Databases available through Reeves Library are excellent sources of scholarly articles.

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?

Exams (2)	20%
CPAs	30%
Industry Analysis	20%
Journal for Industrial Organization	10%
Virtual Profit-Seeking Game	10%
Class Participation	5%
Weekly Posts in Google Community	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 is the workload expectation for this course?

This course is a full-unit course that meets twice per week for 70 minutes at each class period. Middles States Accreditation requires that each full-unit course include at least **174 hours of course work** during the fifteen-week semester. Over the course of this semester we will meet 28 times for 70 minutes each; therefore, our classroom time will only account for 33 of these required hours plus an additional three hours for final presentations. This implies that **work outside of the classroom** must meet a minimum threshold of 138 hours, or **nine hours per week**. The activities and assignments required for successful completion of this course are designed with that goal in mind.

What happens if there is inclement weather?

In hazardous weather conditions, the College may be closed and classes cancelled, or the college may opt to run on a two-hour delayed schedule (see below). The decision to close or delay the opening of classes will be announced on the inclement weather hotline, [610 625-7995](tel:610625-7995), and will be communicated on the following radio and TV stations: WLEV-FM 100.7, WAEB-FM 104.1, WAEB-AM 790, WCTO-FM 96.1, WRFY-FM 102.5, WBYN-FM 107.5, WODE-AM 99.9, WWYY-FM 107.1, WKFB-FM 107.5, WSBG-FM 93.5, WZZO-FM 95.1, and WFMZ-TV (Channel 69).

These closings or delays will also appear at the top of the login page on the College's internet portal AMOS (amos.moravian.edu) as well as the College's website (www.moravian.edu <<http://www.moravian.edu/>>). College-wide cancellations *after the start of the class day* will be announced on the public-address system of the HUB, the

campus e-mail system, the radio and TV stations mentioned above, and AMOS and the College's website.

Two-Hour Delay: If the decision has been made to open with a two-hour delay, the day does not begin with third-period classes; it begins with first-period classes on a shortened schedule. When following the delayed schedule, please note that there will be no "A" or "B" periods. A 2-hour delay does not affect courses, which begin at 4PM or later. Those courses would run on their normal schedule, if the college were open. Morning and afternoon science labs and studio art classes have their own schedule. Music lessons and practice are cancelled for the day when the delayed schedule is in effect.

What should I do if I need an accommodation in this course?

Students who wish to request accommodations in this class for a disability should contact Ms. Elaine Mara, Assistant Director of Academic & Disability Support, located on the first floor of Monocacy Hall (extension 1401). Accommodations cannot be provided until authorization is received from the Academic & Disability Support office.

Upon successful completion of this course you may become eligible for the Economics Honor Society (ODE)!

Omicron Delta Epsilon (ODE) is the economics honor society. Its purpose is to recognize scholastic achievement in economics and to promote closer ties of students and faculty. This spring, ODE will organize short evening biweekly meetings for any interested students. Current students will present their research and young economics alumni will talk about their careers. Look for upcoming announcements. To become eligible for induction into ODE, students must attain junior status and have a 3.0 GPA in three or more economics courses as well as overall.

What are the classroom policies?

1. **Attendance is expected** at each class period. Absences will reduce your participation grade.
2. As a common courtesy for your fellow students and myself, I expect students to **be on time**. Lateness will reduce your participation grade.
3. I permit **appropriate and responsible use of technology** during class. Phones, tablets, and laptops can be used as calculators or as 'Internet-enabled' devices for **purposes of class assignment and discussion**.
4. Violations of the Moravian College Academic Honesty Code will not be tolerated. **Plagiarism**, regardless of intent, is a violation of academic honesty; all cases **will be reported to the Dean Traupman-Carr** and the offender will receive a zero on the plagiarized work.
5. Communication for this course will occur through your **Moravian e-mail account and Blackboard**. You are required to check these sources regularly for updates and assignments related to this course.
6. **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.
7. 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.
8. Depending on the final enrollment in the class, we may need to use the final exam period for presentations. Attendance is expected, even if you are not presenting on this date.
9. In the event of inclement weather, we will follow the decisions made by the college (see details below).
10. **I do not offer extra credit.**

The following pages detail specific information regarding each assessment. More details will be provided as due 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 reevaluation. 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: Mar. 16

Exam 2: Apr. 29

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 11:30 am** on the due date listed below. You are also required to bring a (hard- or electronic-) 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.

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 are permitted provided you seek my approval). 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.

GOOGLE COMMUNITIES

We will be using the Google Communities application to discuss current events related to the various industries of study over the course of the semester. (Industries of study will be determined by the chosen final project topics of each group within the class.) You are required to participate actively in the conversations regarding your industry during the course of the semester.

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 Google Community application in order to facilitate continual discussion on these topics. Students are expected to continually monitor this forum and are required to post to this community on a weekly basis. Each week, students should post an interesting anecdote about their current event and respond to another student's post.

Active participation within the Google Community includes:

1. posting an original article, or
2. referencing a second resource in your response to a classmates' post.

At a minimum your comment should include:

1. identification of the specific microeconomic concept(s) is (are) discussed in the article;
2. a demonstration of your understanding of the concept(s); and
3. an explanation of how this relates to theories discussed in class.

The following "rules" apply:

- Articles must have appeared in print since the beginning of the semester.
- Source and date of each article must be indicated. All types of magazines and newspapers are eligible, but sources should be verified as credible.
- 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 and continue to post weekly to the Google Community.

Posts will be graded on:

- Quality of the discussion (items 1-3 above).
- Appropriateness of the articles selected.
- Diversity of topics covered in the articles.

Weekly posts are due at noon on Fridays, according to the schedule detailed below.

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**. You will actively share these posts within the Google Community on a weekly basis. Additionally, at two points during the semester you will submit a summary of your current event findings. This summary should include a discussion of the following:

1. indicate what specific economic concepts are discussed in the articles;
2. an explanation demonstrating your understanding of the concepts; and
3. a relationship between these articles and class discussion.

The following “rules” apply:

- Articles must have appeared in print since the beginning of the semester.
- Source and date of each article must be indicated. All types of magazines and newspapers are eligible, but sources should be verified as credible.
- 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 and continue to post weekly to the Google Community.

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 below. Late journals will not be accepted.

IN-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 on a regular basis (i.e. have more than three absences during the course of the semester) or are perpetually late to 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 course material. Successfully completing these assessments will also improve a student’s participation grade.

VIRTUAL CORPORATE REALITY (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, Google Community, 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

Schedule of Assignments and Topics (subject to change with notice):

Week:	Topic:	Assignments Due:
1: Jan. 19 and 21	Review Basic Economic Market Structures: Ch.: 1 & 2	CPA 0: Jan. 21 Syllabus Sign. Sheet: Jan. 21
2: Jan. 26 and 28	Perfect Comp. Residual Demand, Efficiency, Externalities: Ch. 3	CPA 1: Jan. 28 GC 1: Jan. 30
3: Feb. 2 and 4	Entry & exit, Monopoly, Monopsony: Ch. 3 & 4	CPA 2: Feb. 4 GC 2: Feb. 6
4: Feb. 9 and 11	Dominant firms & Comp. Fringe: Ch. 4	CPA 3: Feb. 11 GC 3: Feb. 13
5: Feb. 16 and 18	Cartels: Ch. 5 Library Session Feb. 16	CPA 4: Feb. 18 GC 4: Feb. 20
6: Feb. 23 and 25	Oligopolies: Ch. 6	Journal: Due Feb. 25
7: Mar. 2 and 4	Review	Exam 1: Mar. 4
8: Mar. 9 and 11	(no class spring break)	
9: Mar. 16 and 18	Multi-period games: Ch. 6; Product Differentiation: Ch. 7	CPA 5: Mar. 18 GC 5: Mar. 20
10: Mar. 23 and 25	RCM Location models, Quality choice: Ch. 7; VCR	CPA 6: Mar. 25 GC 6: Mar. 27
11: Mar. 30 and Apr. 1	Strategic behavior, Predatory pricing: Ch. 11; VCR	
12: Apr. 6 and 8	Limit pricing: Ch. 11; VCR	Initial Industry Analysis: Apr. 8 GC 7: Apr. 10
13: Apr. 13 and 15	Price Discrimination: Ch. 9 Library Session Apr. 15	VCR Analysis: Due Apr. 15 GC 8: Apr. 17
14: Apr. 20 and 22	Review	Exam 2: Apr. 22
15: Apr. 27 and 29	Industry Analysis Presentations	Journal: Apr. 29
Final: May 4 @ 8:30 am	Industry Analysis Presentations	Final Report Due: May 4 by 8:30 am

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.