



THE ROBERT DAY SCHOOL
CLAREMONT MCKENNA COLLEGE

**Economics 165 – Industrial Organization
Silicon Valley Spring 2015 Syllabus**

Professor Darren Filson
Bauer 325

Telephone: x76796
Email: dfilson@cmc.edu

Office Hours: onsite on breaks

Class Location: SV

Course	Lecture Time
Econ 165	March 21, 28, April 4, 11, 18, May 2, 9 approx. 9am-4pm

Textbooks

Lynne Pepall, Dan Richards, and George Norman *Contemporary Industrial Organization: A Quantitative Approach* (Wiley 2011).

Course Description

Industrial Organization uses economics to study industries and firms. We will explain why imperfect competition is pervasive, discuss how to describe and compare imperfectly competitive industries and firms, consider alternative strategies firms employ, examine how industries evolve over time, evaluate the implications for profitability and welfare, and assess the impacts of public policies on firm strategy and industry performance. The course has a particular emphasis on innovation and industry dynamics. The insights are particularly useful for prospective consultants and entrepreneurs, and I expect that prospective investors, managers, and policy makers will benefit from the course as well.

Prerequisites

Econ 101 and Calculus

Learning Objectives

At completion of this course, students will be able to:

- Explain why imperfect competition is pervasive
- Understand and assess alternative strategies firms use in real-world industries
- Evaluate the implications of structure and behavior for profitability and welfare
- Assess the impacts of public policies on firm strategy and industry performance
- Describe the evolution of several real-world industries
- Discuss several stylized facts about innovation
- Understand the key considerations involved in managing innovation in firms

Grading Criteria:

Exams (5):	50%
Participation:	20%
Paper:	20%
Paper Presentation:	10%

There will be five short exams. There will be no makeup exams. If you must miss an exam, you must let me know well in advance to avoid an academic penalty. In such cases, I will base your exam grade on your other exams, with possible adjustments for differences in average class performance on the exams.

The course includes six in-class discussions of firm and industry studies. Guidelines on each case are provided on Sakai. High-quality participation in the discussions will be appreciated by everyone. I do not distribute grades after each case, and my grading system for cases is fairly crude (partly because sometimes people have their hand up and I cannot get to them and partly because it is difficult to quantify relative contributions to the discussion). For each case, any positive contribution warrants a grade of at least C. More substantial contributions result in grades in the B range, and consistent high-quality contributions result in grades in the A range. Not contributing at all results in a grade of F for that case. Be sure you read the cases carefully beforehand and come prepared to contribute to the discussion. In addition, on the last class day we will have small-group discussion sessions.

You will write a paper on a topic of your choice within the broad areas of industrial organization and innovation studies, and on Day 6 you will present a summary of the paper to the class. Begin working on your paper as soon as possible. **A draft of the presentation is due on Day 5, and the paper is due on Day 6. When writing the paper, follow the guidelines on Sakai.** Email me the paper in Word format with the filename "Your Name Econ 165 paper." **I will deduct a grade point (A becomes A-, A- becomes B+, and so on) for every day your paper is late.** If you turn in your paper at least two weeks prior to the deadline, I will provide feedback that you can use to improve the paper before it is due.

Tentative Course Outline

Day 1:

1. Introduction (PRN 4.1)

2. Conducting a Firm or Industry Study (reading on Sakai from Ghemawat, P. *Strategy and the Business Landscape: Text and Cases* 3e (2009))

McGahan, A.M. “The Performance of US Corporations: 1981-1994” *Journal of Industrial Economics* 47 (December 1999): 373-98.

Teece, David J. “Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance” *Strategic Management Journal* 28 (2007): 1319-50.

Agarwal, R. and M. Tripsas “Technology and Industry Evolution” in S. Shane, ed. *Handbook of Technology and Innovation Management* (Wiley 2008).

Kodrzycki, Y.K. and P. Yu “New Approaches to Ranking Economics Journals” *Contributions to Economic Analysis & Policy* 5:1 (2006), Article 24.

3. Prepare for Exam 1

4. Case: The Video Game Industry and Electronic Arts (readings: “Electronic Arts in 1995” and “Electronic Arts in 2002” Stanford Graduate School of Business cases)

These cases must be purchased from Harvard Business School Publishing. Use the following link: <https://cb.hbsp.harvard.edu/cbmp/access/28249921>

Day 2:

5. Exam 1

6. Cournot and Bertrand Competition (PRN 7.3, 7.4, 7.6)

7. Innovation and Intellectual Property Rights (PRN 15.1-15.4, 16.1-16.4)

Jones, C.I. and J.C. Williams “Measuring the Social Return to R&D” *Quarterly Journal of Economics* (November 1998): 1119-35.

Cohen, W.M., R.R. Nelson, and J.P. Walsh “Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)” NBER working paper 7552 (2000).

Gallini, N.T. “The Economics of Patents: Lessons from Recent U.S. Patent Reform” *Journal of Economic Perspectives* 16:2 (Spring 2002).

8. Case: The Broiler Industry (reading on Sakai: Rogers, Richard T. “Broilers: Differentiating a Commodity” in Larry L. Duetsch, ed. *Industry Studies* 3e (Armonk, NY: M.E. Sharpe, 2002))

Day 3:

9. Exam 2

10. Dynamic Games (PRN 7.1, 7.2, 7.5. 8.4)

11. Stylized Facts about Innovation (reading on Sakai: Salter, Ammon and Oliver Alexy “The Nature of Innovation” in Mark Dodgson, David M. Gann and Nelson Phillips, eds. *The Oxford Handbook of Innovation Management* (Oxford University Press 2014)).

12. Case: The Pharmaceutical Industry (reading on Sakai: Danzon, Patricia M. “The Economics of the Biopharmaceutical Industry” in Sherry Glied and Peter C. Smith, eds. *The Oxford Handbook of Health Economics* (Oxford University Press 2011))

Day 4:

13. Exam 3

14-15. Entry Deterrence, Collusion and Horizontal Mergers (PRN 9.1-9.5, 10)

Dunne, T., M.J. Roberts, and L. Samuelson “Patterns of Firm Entry and Exit in U.S. Manufacturing Industries” *Rand Journal of Economics* 19 (Winter 1988): 495-515.

Baker, J.B. “The Case for Antitrust Enforcement” *Journal of Economic Perspectives* 17:4 (Fall 2003): 27-50.

Christie, W.G., and P. Schultz “Why Do NASDAQ Market Makers Avoid Odd-Eighth Quotes?” *Journal of Finance* (December 1994): 1813-49.

U.S. Department of Justice and Federal Trade Commission *Horizontal Merger Guidelines* (2010).

16. Case: The Automobile Industry and General Motors (reading on Sakai: Helper, Susan and Rebecca Henderson “Management Practices, Relational Contracts, and the Decline of General Motors” *Journal of Economic Perspectives* 28:1 (Winter 2014): 49-72.)

Day 5

Drafts of Presentations are Due Today. Email me your presentation with the filename “Your Name Econ 165 presentation”

17. Exam 4

18. Case: The Proposed Staples-Office Depot Merger (reading on Sakai: Dalkir, Serdar and Frederick R. Warren-Boulton “Prices, Market Definition, and the Effects of Merger: Staples-Office Depot (1997)” in John E. Kwoka, Jr. and Lawrence J. White, eds. *The Antitrust Revolution: Economics, Competition and Policy* 6e (Oxford University Press 2014))

19-20. Preparing for Presentations

Day 6

Papers are Due Today. Email me your paper in Word format with the filename “Your Name Econ 165 paper.”

21. Vertical Mergers and Vertical Restraints (PRN 12, 13)

Posner, Richard A. “The Next Step in the Antitrust Treatment of Restricted Distribution: Per Se Legality” *University of Chicago Law Review* 48:1 (Winter 1981): 6-26.

22. The Management of Innovation (reading on Sakai from Dodgson, Mark, David Gann and Ammon Salter *The Management of Technological Innovation* 2e (2008))

23-24. Presentations

Day 7:

25. Exam 5

26. Case: Microsoft (reading on Sakai: Waldman, Don E. and Rochelle Ruffer “Who Is Microsoft Today?” in Victor J. Tremblay and Carol Horton Tremblay, eds. *Industry and Firm Studies* 4e (M.E. Sharpe 2007))

27-28. Small-Group Sessions