

INDUSTRIAL ORGANIZATION

2017

COURSE OUTLINE

Industrial organisation (IO) is concerned with the features and behaviour of firms in imperfectly competitive markets. The course is divided into two sections. Section 1 (presented by Prof Boshoff) deals with the fundamentals of IO. There is a strong focus on quantitative work and economic models used in theory and practice. Section 2 (presented by Prof Theron) has a policy focus and deals with the economics and law of competition policy. The aim is to expose students to the legal environment, where economics is applied in practice.

1. TEAM

1.1 Lecturers

Lecturer	E-mail address	Office	Appointments
Prof Wimpie Boshoff	wimpie2@sun.ac.za	Room 501, CGW Schumann Building	E-mail for appointment
Prof Nicola Theron	nicola@econex.co.za	Econex, 76 Dorp Street, Stellenbosch	E-mail for appointment

Prof Liberty Mncube, extraordinary professor in the Department and chief economist of the South African Competition Commission, will present one lecture.

1.2 Moderators

The internal moderator of this course is Melt van Schoor.

The external moderator is Prof Caroline Buts (Free University of Brussels).

2. CLASS TIMES AND VENUE

We meet Thursday 8:30-10:30 in the Sadie Lecture Hall (207B).

3. ASSESSMENT

The final mark will be composed as follows:

- Term Test (Boshoff) 20%
- Assignment (Boshoff) 10%
- Essay and class work (Theron) 20%
- Exam (Boshoff & Theron) 50%



3.1 Term Test

Students will write a term test on **Monday 18 September 2017**, details of which will be communicated by Prof Boshoff. Students who miss the term test, have to rewrite on the day of the examination. Details about the examination date will be communicated by Carina Smit.

3.2 Assignment

Students will complete one assignment, details of which will be communicated by Prof Boshoff. Assignments must be handed in at the start of class on **Thursday 28 September 2017**. Failure to submit on time will result in a five percentage-point deduction per day, for every day or part-day for which the assignment is outstanding. Students must satisfactorily complete the assignment in order to pass the course.

3.3 Essay and class work

Students will write one 2000-word essay on a topic to be announced by Prof Theron. Students must adhere to the anti-plagiarism policy of the Department. The due date for the essay is **Friday 20 October 2017** before 12:00. Failure to submit on that date will result in a five percentage-point deduction per day, for every day or part-day for which the essay is outstanding. Students must hand in a satisfactory essay in order to pass the course.

Students may also be expected to participate in group work and discussion in class, details of which will be communicated by Prof Theron.

4. COURSE OUTLINE AND READING LIST

4.1 SECTION 1: Fundamentals of IO (Prof Boshoff)

Objectives:

Learning objective	Task/assignment
Understand and apply standard game-theoretic models to analyze horizontal and vertical competitive outcomes in imperfectly competitive markets	Study of the literature – text books and journal articles
Ability to apply empirical techniques to study the extent of competition and detect competition problems	Study of the literature – text books and journal articles – and completion of one assignment

Topics:

Date	Lecturer	Lecture #	Topic
20/7	Boshoff	1	Monopoly and welfare Review: Oligopoly and strategic interaction
27/7	Boshoff	2	Market structure and market power Market definition

Date	Lecturer	Lecture #	Topic
3/8	Boshoff	3	Collusion
10/8	Boshoff	4	Collusion
17/8	Boshoff	5	Horizontal mergers
24/8	Boshoff	6	Two-sided markets and network industries
31/8	Boshoff	7	Empirical techniques for competition policy
7/9	<i>RECESS</i>		
14/9	Boshoff	8	Vertical restraints
21/9	Mncube	9	TBA

Course texts:

Carlton, D. and Perloff, J. 2005. Modern Industrial Organization. 4th Edition. Scott, Foresman. ("CP")

Pepall, L., Richards, D. and Norman, G. 2011. Contemporary industrial organization: a quantitative approach. John Wiley & Sons: New Jersey. ("PRN")

Motta, M. 2008. Competition policy: theory and practice. Cambridge University Press: New York. ("Motta")

Kaplow, L. 2013. Competition policy and price fixing. Princeton University Press: Oxford. ("Kaplow")

Reading list:

- *Lecture 1*

PRN Chapter 7&8

Motta Chapter 2

Aghion, P., Braun, M. and Fedderke, J.W. 2008. Competition and productivity growth in South Africa. *Economics of Transition* 16: 741-768.

Aghion, P., Fedderke, J.W., Howitt, P. and Viegi, N. 2013. Testing creative destruction in an opening economy: the case of the South African manufacturing industries. *Economics of Transition* 21: 419-450.

Purfield, Catriona Mary; Hanusch, Marek; Algu, Yashvir; Begazo Gomez, Tania Priscilla; Martinez Licetti, Martha; Nyman, Sara. 2016. South Africa economic update: promoting faster growth and poverty alleviation through competition. South Africa economic update; issue no. 8. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/917591468185330593/South-Africa-economic-update-promoting-faster-growth-and-poverty-alleviation-through-competition>



- *Lecture 2*
 PRN Chapter 4
 Motta Chapter 2
 Davis, Peter and Garcés, E. 2010. Quantitative techniques for competition and antitrust analysis. Princeton University Press: Oxford. *Chapter 6.1: The role of structural indicators*
 Kaplow, L. Why (ever) define markets? 2010. Harvard Law Review 124: 437-440.
 Werden, G.J. Why (ever) define markets? 2012. An answer to Professor Kaplow. Working paper. [Online]. Available: <http://ssrn.com/abstract=2004655>.
 Baker, J.B. and Bresnahan, T.F. 2008. Economic evidence in antitrust: defining markets and measuring market power. In: Handbook of antitrust economics. Ed: Buccirossi, P. MIT Press: London.
 Boshoff, W.H. 2014. Market definition as a problem of statistical inference. Journal of Competition Law and Economics 10(4): 861-882.
- *Lecture 3*
 PRN Chapter 10
 CP Chapter 5
 Buccirossi, P. 2008. Facilitating practices. In: Handbook of antitrust economics. Ed: Buccirossi, P. MIT Press: London.
 Boshoff, W., Fröbing, S. & Hüscherlath, K. 2016. Information exchange through non-binding advance price announcements. European Journal of Law and Economics. doi:10.1007/s10657-016-9549-9
- *Lecture 4*
 Kaplow Chapter 2-7
 Boshoff, W.H. and Paha, J. 2017. The law and economics of list price collusion. Mimeo.
- *Lecture 5*
 Motta Chapter 5



- *Lecture 6*

Rochet, J.C. and Tirole, J. 2008. Competition policy in two-sided markets, with a special emphasis on payment cards. In: Handbook of antitrust economics. Ed: Buccirossi, P. MIT Press: London.

Motta Chapter 7.3

Economides, N. 2008. Public policy in network industries. In: Handbook of antitrust economics. Ed: Buccirossi, P. MIT Press: London.

- *Lecture 7*

Davis, Peter and Garcés, E. 2010. Quantitative techniques for competition and antitrust analysis. Princeton University Press: Oxford. *Chapter 4: Market definition.*

- *Lecture 8*

Motta Chapter 6

- *Lecture 9*

Literature to be announced.

4.2 SECTION 2: Competition policy (Prof Theron)

Objectives:

Learning objective	Task/assignment
Apply law and economic theories of competition policy to practical competition problems; understand competition problems and how competition authorities deal with them	Study of the literature – text books and journal articles
Advise governments or competition authorities on the implications of particular forms of competition policy	Study of the literature, presentation and explanation of cases in class
Ability to write a concise and well-structured essay that captures main elements of a competition problem.	Formal essay



Topics:

Date	Lecturer	Venue	Topic
28/9	Theron	207B	Evolution of Competition Policy and Horizontal Merger analysis: Applications
05/10	Theron	207B	Abuse of Dominance: Applications
12/10	Theron	207B	Vertical Restraints and Vertical Mergers: Applications
19/10	Theron	207B	Competition issues in telecommunications

Reading list:

WEEK 1 *Evolution of Competition Policy & Horizontal Merger Analysis: Applications*

1. The evolution of Policy in SA – Proposed Guidelines for Competition Policy, The DTI (27 November 1997) [background reading only];
2. Motta, M. 2008. Competition policy: theory and practice. Cambridge University Press: New York. *Chapter 5: Horizontal mergers.*

Cases:

3. Competition Law reports (1999-2000) – JD Group Ltd/ Ellerine Holdings Ltd;
4. Competition Tribunal of SA (08/LM/Feb08) – Large merger between Distillers Corporation (SA) Ltd and Stellenbosch Farmers Winery Group Ltd;
5. Competition Law Reports (2003). Distillers Corporation (SA) Ltd/ Stellenbosch Farmers Winery Group Ltd;
6. Competition Tribunal (2010) Primedia Limited Capricon Capital Partners (Pty) Ltd New Africa Investments Limited and The Competition Commission Africa Media Entertainment Ltd. 39/AM/May06

WEEK 2 *Abuse of dominance: Applications*

1. Bishop, S. & Walker, M (2012). “The Economics of EC Competition Law: Concepts, Application and Measurement”. Chapter 6: Article 82.

Cases:

2. Competition Law reports. Competition Commission of SA v. Senwes Ltd. 110/CR/Dec06.
3. Competition Tribunal. South African Airways Pty (Ltd) vs Nationwide. 18/CR/Mar01.
4. Competition Tribunal. Sasol Chemical Industries. 48/CR/Aug10.



WEEK 3 *Vertical restraints and vertical mergers: Applications*

1. Theron, N. M. & Boshoff, W.H. (2011). “When do vertical restraints harm competition? The economics-based approach and its application in the BATSA case”;
2. RBB Economics (March 2006). “The Response of RBB Economics to the DG Competition Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses”.

Cases:

3. Competition Tribunal. The Competition Commission, JTI and BATSA (Reasons for decision), Case No: 05/CR/Feb05;
4. Competition Tribunal – Merger Decision – Uhambo (LM/101/Dec04).

WEEK 4 *Regulatory and competition issues in telecommunications*

1. Fourie, H & Theron, N. M. (2016) “Regulatory ambiguity and policy uncertainty in South Africa’s telecommunications sector”. ERSA Working paper.

Cases:

2. Competition Tribunal (2015). Telkom SA SOC Ltd and Business Connexion Group Ltd. LM065Aug14.
3. Competition Commission vs Telkom SA Ltd. 11/CR/Feb04

