

Regulation and Competition Policy

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Course 2009-2010

See also the webpage on the intranet

Theory	Mondays, from 18:00 to 19:30. Thursdays, from 10:00 to 11:30.
Exercises	Thursdays, from 12:00 to 13:30.

The course consists of two parts. In the first one we describe the classical regulation policies in sectors such as energy, telecommunications, etc. We present the most commonly used regulation mechanisms and we compare them with the theoretical proposals in the literature. We later discuss the liberalization processes undertaken in most developed countries and we draw lessons from their implementation.

The second part of the course is an introduction to competition policy. Using the theory developed in the industrial economics course we present three prototypical areas of intervention: *abuse of dominant position*, *collusion* and *merger control*. In each of these areas we combine the study of theoretical models with empirical papers related to their implementation. A group of students will present a resolution by the European Commission of each type that illustrates how the process is resolved in practice.

1 Syllabus

These are the topics that will be developed during the course. In brackets you will find textbooks useful for further reference. Most of the contents, however, are developed in papers listed in the complementary bibliography section.

PART 1: Regulation.

1. Some Principles of Economic Regulation: The Natural Monopoly Case (VVH CH. 10 AND 1).
2. Regulation in Practice (VVH CH. 12 AND LT CH. 2 AND 3).
3. Incentives in Regulation (ACV CH. 3, LT CH. 2 AND 3, AND LT93 CH. 2).
4. Public Procurement: Auctions (LT93 CH. 7 AND 8).
5. Liberalization and Competition. (ACV CH. 4 AND LT CH. 3, 4 AND 5).

PART 2: Competition Policy.

6. Introduction to Competition Policy: Goals and Current Environment.
7. Abuse of Dominant Position: Tying, Predation and Price Discrimination (MOTTA CH. 6 AND 7).
8. Collusion and Leniency Programs (MOTTA CH.4).
9. Horizontal and Vertical Integration (MOTTA CH. 5 AND 6).

2 Requirements and Exam

During the course I will hand out four problem sets. These homeworks will be graded and they will account for 10% of the final grade. In the second part of course, the presentation of a competition policy case will have a 20% weight on the final grade.

The rest of the final grade will correspond to the exam, that will have two parts: some theoretical exercises and a discussion of a real regulation or competition policy case. In this last part, some background information will be presented and students will need to motivate their answer using economic arguments. In the webpage of the course you can find examples from previous exams.

3 Recommended Books

There is no book that covers exactly all the contents of this course. For the regulation part, however, three books will be useful:

- (VVH) Viscusi, J.E., J.M. Harrington and W.K. Vernon (2005) “Economics of Regulation and Antitrust,” *MIT Press*, 4th edition.

This book covers both the regulation and competition policy part but from a US perspective, in many aspects quite different from the European experience. It is also intended for a less technically-oriented audience.

- (ACV) Armstrong, M., S. Cowan and J. Vickers (1994) “Regulatory Reform,” *MIT Press*.
- (LT) Laffont, J.J. and J. Tirole (2000) “Competition in Telecommunications,” *MIT Press*.
- (LT93) Laffont, J.J. and J. Tirole (1993) “A Theory of Incentives in Procurement and Regulation,” *MIT Press*.

These books cover the regulation part of the course in detail. The first has examples of the liberalization undertaken in the UK, while the second puts special emphasis on the telecommunications market. The third is a good technical reference on regulation.

For the part on competition policy, an excellent reference for economists is

- Motta, M. (2004) “Competition Policy,” *Cambridge University Press*.

The following books cover some legal and methodological aspects:

- Buccirosi, P. (2008) “Handbook of Antitrust Economics,” *MIT Press*.
- Whish R. (2008) “Competition Law,” *Butterworths*, 6th edition.
- O’Donoghue, R. and J. Padilla (2006) “The Law and Economics of Article 82 EC,” *Hart Publishing*.
- Bishop, S. and M. Walker (2002) “The Economics of Competition Law: Concepts, Application and Measurement,” *Sweet & Maxwell*.

Beyond these books, the following papers constitute a good starting point for those that want to have a more detailed understanding of some of these topics. In the course webpage I keep a more updated list with links to the corresponding PDFs when available.

References

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- BARON, DAVID, "Design of Regulatory Mechanisms and Institutions," in *Handbook of Industrial Organization*, volume 2, Elsevier, 1989 pp. 1347–1447.
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- BORENSTEIN, S. AND A. SHEPARD, "Dynamic Pricing in Retail Gasoline Markets," *RAND Journal of Economics*, 1996, 27, pp. 429–451.
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- MOTTA, MASSIMO AND M. POLO, "Leniency Programs and Cartel Prosecution," *International Journal of Industrial Organization*, 2003, 21, pp. 347–379.
- NEVO, AVIV, "Mergers with Differentiated Products: The Case of the Ready-to-Eat Cereal Industry," *RAND Journal of Economics*, Autumn 2000, 31(3), pp. 395–421.
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- PORTER, ROBERT, "A Study of Cartel Stability: The Joint Executive Committee, 1880-1886," *Bell Journal of Economics*, 1983, 14, pp. 301–314.
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- SEGAL, I.R. AND M.D. WHINSTON, "Naked Exclusion: A Comment," *American Economic Review*, 2000, 90, pp. 296–309.
- WHINSTON, M., "Tying, Foreclosure and Exclusion," *American Economic Review*, 2000, 80, pp. 837–859.
- WOLFRAM, CATHERINE D., "Measuring Duopoly Power in the British Electricity Spot Market," *American Economic Review*, 1999, 89, pp. 805–826.