

Regulation and Competition Policy

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Fourth Term, Course 2023-2024

See also the CEMFI Moodle page at
<https://intranet.cemfi.es/course/view.php?id=137>
for up-to-date information

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| Theory | Mondays, from 15:00 to 16:30 Wednesdays, from 9:30 to 11:00 |
| Exercises and Presentations | Wednesdays, from 11:30 to 13:00 |

The course is divided in two parts. In the first part we will study situations where market failures prevent competition from delivering efficient outcomes. This is typically the case in sectors such as energy, telecommunications, or transportation. Market regulation in these markets emerges as a way to mitigate inefficiencies. We will also discuss how the lessons from market regulation are now being applied to the digital economy, where the role of big platforms has become increasingly important.

The second part of the course is an introduction to competition policy. Using standard industrial economics models we will discuss the three prototypical areas of intervention: *abuse of dominant position*, *collusion*, and *merger control*. In each of these areas we will combine the study of theoretical models and the practical implementation based on empirical papers and real-world cases. Finally, students organized in groups will present a resolution by the European Commission or a national competition authority concerning each area in order to illustrate how the process is resolved in practice.

1 Syllabus

The following topics will be developed during the course. Although most of the material comes from papers, in brackets you will find chapters of textbooks that are useful for further reference. These books are enumerated in the next page.

PART 1: Regulation.

1. Economic Regulation: When and Why.
2. The Classical Theory of Economic Regulation (ACE CH. 4 AND 6, LT CH.2 AND 3).
3. Incentives in Regulation (ACE CH. 5, LT CH.2 AND 3, AND LT93 CH.2).
4. Liberalization and Competition. (LT CH.3, 4, AND 5).

PART 2: Competition Policy.

6. Introduction to Competition Policy.
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 between four and five problem sets will be distributed. Their grade accounts for 15% of the final evaluation. In the second part of course, students will organize in three groups to present a competition policy case. This presentation has a weight of 15%.

The rest of the final grade corresponds to the final exam, that usually consists of two theoretical exercises and a discussion of a competition policy or regulation case. For this last part, some background information will be presented and the answers are expected to be motivated by economic arguments learned in class. The web page of the course includes some examples from previous years.

3 Recommended Books

For the **regulation** part, the following books are a useful reference:

- (ACE) Auriol, E., C. Crampes and A. Estache “Regulating Public Services,” *Cambridge University Press*, 2021.
- (LT) Laffont, J.J. and J Tirole “Competition in Telecommunications,” *MIT Press*, 2000.
- (LT93) Laffont, J.J. and J Tirole, “A Theory of Incentives in Procurement and Regulation,” *MIT Press*, 1993.

These books cover most of the regulation part of the course in detail. The first is a state of the art discussion of the area with a broader scope than this course. The second reference is a nice introduction to the main topics with special emphasis on the telecommunications market. The third book is a good technical reference to the economic analysis that underpins the theory of market regulation.

Competition policy is a very active research area. For this reason, we will rely on many (recent) papers. However, for the basic concepts, an excellent reference for economists is

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

Two good complements to this book are:

- Fumagalli, C., M. Motta and C. Calcagno, “Exclusionary Practices: The Economics of Monopolization and Abuse of Dominance,” *Cambridge*, 2018.
- Davis, P. and E. Garcés, “Quantitative Techniques for Competition and Antitrust Analysis,” *Princeton University Press*, 2010.

The first book deals specifically with abuse of dominant position practices, while the second is a discussion of quantitative techniques used in Competition Policy.

Other books that cover relevant legal and methodological aspects:

- Bishop, S. and M. Walker, “The Economics of Competition Law: Concepts, Application and Measurement,” *Sweet & Maxwell*, 2002.
- Buccirosi, P., “Handbook of Antitrust Economics,” MIT Press, 2008.
- O’Donoghue, R. and J. Padilla, “The Law and Economics of Article 102 TFEU,” *Hart Publishing*, 3rd Edition, 2020.
- Whish R. and D. Bailey, “Competition Law,” *Butterworths*, 7th edition, 2012.