

Chapter 1: Industrial Organization: What, How and Why?

Learning Objectives:

Students should learn:

Description of Industrial Organization

1. The Nature of Industrial Organization.
2. The motivation for formal analysis of imperfect competition.
3. A brief history of U.S. Antitrust policies and enforcements.

Suggested Lecture Outline:

Spend one lecture fifty-minute long lecture on this chapter. The topics that may be covered are:

1. Description of Industrial Organization.
2. Different approaches to studying Industrial Organization.
3. Antitrust Policies.
4. Examples / Case Studies.

Suggestions for the Instructor:

1. Clearly explain the organization of your course on the first day of class.
2. Motivate the students about Industrial Organization with examples / case studies that the students can relate to.
3. Make the students solve / discuss few problems from the end of Chapter 1.

Solutions to the End of the Chapter Problems:

Problem 1

Many examples imperfectly competitive markets are possible. Common ones include: (1) Automobiles, (2) Beer, (3) Telephone/Telecommunications, (4) Jet Aircraft, (5) Patented Pharmaceuticals, and (6) Computer Operating Systems. Large entry costs, scale economies, network effects and government regulations all play a role in these examples.

Problem 2

In a perfectly competitive market, each agent is a price taker. That is, decisions of individual firm and / or consumer do not affect the market price or environment. Therefore, there is no room for strategic behavior in a perfectly competitive market.

Problem 3

In general, the Clayton Act was designed to prevent monopoly “in its incipency” by making explicitly illegal a number of business practices. In particular, Section 2 prevents strategic manipulations of the upstream / downstream market by a firm with market power. Under Section 2 of the Clayton Act, it is illegal to “discriminate in price between different purchasers of commodities of like grade and quality”. Section 7 was passed to prevent anti-competitive mergers.

Problem 4

If higher concentration leads to higher worker productivity, then industrial concentration can lower production cost, and therefore, horizontal mergers *may* improve economic efficiency.

Problem 5

Market dominance by one firm may be due to the firm's better performance, higher efficiency etc. Price fixing, however, does not indicate higher efficiencies for the participating firms. It simply hurts the consumers and reduces overall welfare.