

# Introduction

## ECN 453: Industrial Organization/Competition Policy

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# Plan for today

1. What is industrial organization?
2. Discuss syllabus

# 1. What is industrial organization?

## Your economics education so far

- So far in your economics courses you have studied (at least) two forms of competition: **perfect competition** and **monopoly**.
- We can think of these two forms of competition as polar opposites.
- **Perfect competition** (supply and demand)
  - Many tiny 'atomistic' firms
  - Total surplus is maximized and so the market is 'efficient'. Taxes and other regulation can cause inefficiencies ('deadweight loss')
- **Monopoly**
  - One single firm
  - Monopoly sets price 'too high'; the market is inefficient. Clear scope for regulation

Most real-world markets and firm behaviors do not fit neatly into these two categories.

- Some examples in this course:
  1. Firms set different prices for the same good (e.g. airline tickets, student discounts, pharmaceutical pricing in different countries)
  2. There are only a few big firms in the market (e.g. health insurance, internet plans, ...)
  3. Firms collude to raise prices or restrict supply (e.g. OPEC)
  4. Firms merge with, or acquire, other firms

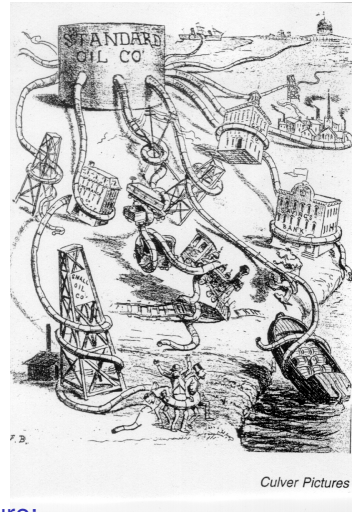


Figure:  
<https://adamstoolkit.tripod.com/ushist1800/muck/cartoon.html>

# What is industrial organization (IO)?

- **IO is the study of firm and consumer behavior in markets between (and including) the polar opposites of perfect competition and monopoly.**
- Why is this useful?
  1. Designing regulation:
    - Hinges on the details of how firms and consumer behave.
  2. Firm strategy
    - e.g. How to set prices? How to design online marketplaces?

# IO is central to many heated policy debates right now

## POLITICO

AD

### LEGAL

## Trump administration launches antitrust salvo against Google

The Trump administration's suit is the most concrete manifestation yet of Washington's growing bipartisan anger at the tech giants' heft and wealth.



Google's headquarters in Mountain View, Calif. | Marcio Jose Sanchez/AP Photo

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AP

## Bills that could force Big Tech breakups unveiled in House

By MARCY GORDON June 11, 2021





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Bills

By MARCY

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PHOTO: ROB DOBI

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Oct 12 2021 10:30 AM - 3:00 PM EDT  
WSJ Risk & Compliance Forum

Oct 18 2021 9:00 AM - 5:00 PM EDT  
WSJ Tech Live

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1. 'We Will ROC You': How Russians Crushed the Tokyo Olympics Under an Alias



2. WHO Calls for Halt to Covid-19 Booster



# In this course we will focus on the following topics

1. **Weeks 1-5:** Pricing, price discrimination, and an introduction to game theory
2. **Weeks 6-10:** Models of static competition
3. **Weeks 11-14:** Models of dynamic competition and collusion; horizontal and vertical relationships; mergers

## 2. Discuss syllabus