

Industrial Organization I, Tyler Cowen (x2312, 4910), tcowen@gmu.edu

BOOKS:

Crandall, Robert – *Competition and Chaos: U.S. Telecommunications since the 1996 Telecom Act*, Brookings Institution, February release due, this is the revised edition.

Jim, Robert – *Good to Great*

Gordon, John Steele – *An Empire of Wealth: An Epic History of American Economic Power*

Hayek, F.A. – *Individualism and Economic Order* – you need to order this through Amazon, it is not in the bookstore.

NOTE: I will draw from the following books, they are out of print or expensive, but there is value in getting a hold of a copy, **not in the bookstore.**

Kenneth Train, *Optimal Regulation*, MIT Press.

Daniel Spulber, *Regulation and Markets*, MIT Press.

Sanford Berg and John Tschirhart, *Natural Monopoly Regulation*, Cambridge University Press.

The Laffont and Tirole book *A Theory of Incentives in Procurement and Regulation* is a handy reference work, especially on the more technical issues.

METHODS OF EVALUATION:

There will be weekly quizzes, a paper and a final exam.

READINGS:

I. The Firm

Grossman, Sanford J and Hart, Oliver D. “The Costs and Benefits of Ownership: A theory of Vertical and Lateral Integration.” *Journal of Political Economy* (1986): 691-719.

Hart, Oliver and Moore, John. “Property rights and the Nature of the Firm.” *Journal of Political Economy* (December 1990) : 1119-1158.

Holmstrom, Bengt and Tirole, Jean. “The Theory of the Firm,” in *Handbook of Industrial Economics*, vol.I.

Rotemberg, Julio. "A Theory of Inefficient Intrafirm Transactions." *American Economic Review* (March 1991).

Holmstrom, Bengt and Roberts, John. "The Boundaries of the Firm Revisited." *Journal of Economic Perspectives* 12, 4 (Fall 1998): 73-94.

Hart, Oliver and Holmstrom, Bengt. "A Theory of Firm Size and Scope," available at http://econ-www.mit.edu/faculty/download_pdf.php?id=514.

Hayek, F.A. "The Meaning of Competition," from Individualism and Economic Order.

Smith, Adam, Wealth of Nations, the pin factory discussion, available at <http://www.econlib.org/library/Smith/smWN.html>.

Mullainathan, Sendil, and Scharfstein, David. "Do the Boundaries of the Firm Matter?" *American Economic Review* (May 2002) available at http://econ-www.mit.edu/faculty/download_pdf.php?id=283.

Demsetz, Harold and Lehn, Kenneth. "The Structure of Corporate Ownership: Causes and Consequences." *Journal of Political Economy* 93 (December 1985): 1155-1177.

Gibbons, Robert. "Incentives in Organizations." *Journal of Economic Perspectives* (Fall 1998): 115-132.

Montgomery, Cynthia. "Corporate Diversification," *Journal of Economic Perspectives* (Summer 1994): 163-178.

Rasmusen, Eric. "Mutual Banks and Stock Banks." *Journal of Law and Economics* 31 (1988): 395-422.

Hansemann, Henry. "Ownership of the Firm," *Journal of Law, Economics and Organization* (Fall 1988).

Hansemann, Henry. "The Role of Non-Profit Enterprise." *Yale Law Journal* (1980): 835-901.

Carmichael, H. Lorne. "Incentives in Academics: Why is There Tenure?" *Journal of Political Economy* (1988): 453-472.

Hayek, F.A. Essays on socialist calculation, from Individualism and Economic Order.

Cowen, Tyler, "A Review of G.C. Archibald's Information, Incentives, and the Economics of Control: A Reexamination of the Socialist Calculation Debate." *Journal of International and Comparative Economics*, 1995, 4, 243-249.

Cowen, Tyler. "Response to David Friedman," *Economics and Philosophy*, at <http://www.gmu.edu/jbc/Tyler/TYLER.doc>.

Rotemberg, Julio. "Altruism, Reciprocity, and Cooperation in the Workplace," 2002, available at <http://www.people.hbs.edu/jrotemberg/altorgs5.pdf>.

Rotemberg, Julio. "Fair Pricing," available at <http://www.people.hbs.edu/jrotemberg/angpri8.pdf>.

II. Capital structure and control

Miller, Merton, and commentators. "The Modigliani-Miller Propositions After Thirty Years," and comments, *Journal of Economic Perspectives* (Fall 1988): 99-158.

Myers, Stewart. "Capital Structure." *Journal of Economic Perspectives* (Spring 2001): 81-102.

Hart, Oliver. "Financial Contracting." *Journal of Economic Literature* (December 2001): 1079-1100.

Easterbrook, Frank H. "Two Agency-Cost Explanations of Dividends." *American Economic Review* (September 1984).

Fudenberg, Drew and Tirole, Jean. "A Theory of Income and Dividend Smoothing." *Journal of Political Economy* (February 1995): 75-93.

Baker, Malcolm and Wurgler, Jeffrey. "A Catering Theory of Dividends," *Journal of Finance* (2004), available at <http://pages.stern.nyu.edu/~jwurgler/>.

Baker, Malcolm and Ruback, Richard. "Behavioral Corporate Finance: A Survey," found at <http://www.wcfia.harvard.edu/seminars/pegroup/BakerRubackWurgler.pdf>

"Symposium on Takeovers," edited by Hal Varian, *Journal of Economic Perspectives* (Winter 1988): 1-82.

Andrade, Gregor, et. al. "New Evidence and Perspective on Mergers." *Journal of Economic Perspectives* (Spring 2001): 103-120.

Holmstrom, Bengt and Kaplan, Steven. "Corporate Governance and Merger Activity in the United States," *Journal of Economic Perspectives* (Spring 2001): 121-149.

Gompers, Paul and Lerner, Josh. "The Venture Capital Revolution." *Journal of Economic Perspectives* (Spring 2001): 145-168.

Stein, Jeremy C. “Efficient Capital Markets, Inefficient Firms: A Model of Myopic Corporate Behavior.” *Quarterly Journal of Economics* 104 (November 1989): 655-670.

Stein, Jeremy C. “Takeover Threats and Managerial Myopia.” *Journal of Political Economy* (1988): 61-80.

Scharfstein, David S. And Stein, Jeremy C. “Herd Behavior and Investment.” *American Economic Review* 80 (June 1990): 465-479.

Hall, Brian and Murphy, Kevin J, “The Trouble with Stock Options,” *Journal of Economic Perspectives*, Summer 2003, also at <http://www-rcf.usc.edu/~kjmurphy/HMTrouble.pdf>.

Murphy, Kevin J. and Zabožnik, Jan. “CEO Pay and Appointments,” *American Economic Review*, May 2004, also at <http://www-rcf.usc.edu/~kjmurphy/CEOTrends.pdf>

Jensen, Michael, Murphy, Kevin J., and Eric Wruck. “Remuneration: Where We've Been, How We Got to Here, What are the Problems, and How to Fix Them,” available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=561305#PaperDownload.

III. Theory and Regulation of Natural Monopolies

Berg and Tschirhart, pp. 21-275.

Spulber, pp. 113-263.

On rate of return regulation, see Spulber, 603-624, and Train, chapters one and two.

On the Averch-Johnson effect, see Berg and Tschirhart, pp.323-384 and Train, chapter three.

Demsetz, Harold. “Why Regulate Utilities?” *Journal of Law and Economics* (April 1968): 347-359.

Williamson, Oliver. “Franchise Bidding for Natural Monopolies - in General and with Respect to CATV.” *Bell Journal of Economics* (Spring 1976): 73-104.

Read Lynne Kiesling’s blog, www.knowledgeproblem.com, go back through the archives, from the beginning, and read all of the entries on electricity markets.

Crandall, Robert, “Broadband Communications,” at <http://www.brookings.org/views/papers/crandall/200305.pdf>.

Crandall, Robert W. “An End to Economic Regulation?” available at <http://www.brookings.org/views/papers/crandall/20030721.pdf>.

Parente, Stephen L. and Prescott, Edward. "Monopoly Rights: A Barrier to Riches." *American Economic Review* 89, 5 (December 1999): 1216-1233.

Shleifer, Andrei. "State vs. Private Ownership." *Journal of Economic Perspectives* (Fall 1998): 133-151.

Berg and Tschirhart, pp. 480-522.

Rogerson, William. "Economic Incentives and the Defense Procurement Process." *Journal of Economic Perspectives* (Fall 1994): 65-90.

Tirole, Jean. "Procurement and Renegotiation." *Journal of Political Economy* (April 1986): 235-259.

IV. Vertical control, antitrust, and related issues.

Tirole, Jean. "Vertical Control." In *Theory of Industrial Organization*, Chapter 4.

Klein, Benjamin and Leffler, Keith. "The Role of Market Forces in Assuring Contractual Performance." *Journal of Political Economy* 89 (1981): 615-641.

Klein, Benjamin and Murphy, Kevin. "Vertical Restraints as Contract Enforcement Mechanisms," *Journal of Law and Economics* (October 1988).

Breit, William. "Resale Price Maintenance: What do Economists Know and When Did they Know It?" *Journal of Institutional and Theoretical Economics* (1991).

Bernheim, R. Doug and Whinston, Michael. "Exclusive Dealing." *Journal of Political Economy* (February 1998): 64-103.

Bittlingmayer, George. "Decreasing Average Cost and Competition: A New Look at the Addyston Pipe Case," *Journal of Law and Economics* (October 1982).

Klein, Benjamin, and Kenney, Roy. "The Economics of Block Booking," *Journal of Law and Economics*, (1983), 27, 3, 497-540.

Tirole, Jean. "Information and Strategic Behavior: Reputation, Limit Pricing, and Predation." In *Theory of Industrial Organization*, Chapter 9.

Sproul, Michael. "Antitrust and Prices." *Journal of Political Economy* (August 1993): 741-754.

McCutcheon, Barbara. "Do Meetings in Smoke-Filled Rooms Facilitate Collusion?" *Journal of Political Economy* (April 1997): 336-350.

Hazlett, Thomas W. "Is Antitrust Anticompetitive?" *Harvard Journal of Law and Public Policy*, (Spring 1986).

Crandall, Robert and Whinston, Clifford, "Does Antitrust Improve Consumer Welfare?: Assessing the Evidence," *Journal of Economic Perspectives* (Fall 2003), 3-26, available at <http://www.brookings.org/views/articles/2003crandallwinston.htm>.