

Syllabus for “Regulation in Product Markets”

Fall term 2013

Instructors: Baake, Pio (TU-Berlin / DIW); Bedre, Özlem (ESMT); Schmidt, Robert (HU-Berlin); Strausz, Roland (HU-Berlin)

Structure: 16 two-hour lectures

Credits: 6 ECTS

Course Objectives:

The objective of the course is twofold. First, it familiarizes students with the most standard results and standard analyses of regulation in product markets. This part of the course addresses, in particular, regulatory issues due to market power and focuses on monopoly regulation. Second, the course discusses regulatory issues that are directly related to the research themes of the doctoral program, in particular the regulation of networks and environmental regulation.

Course Outline:

- I. Price and Monopoly Regulation (Strausz)
- II. Regulation in Networks: interconnected networks and switching costs (Bedre-Defolie)
- III. Regulation in Networks: two sided markets and the internet (Baake)
- VI. Environmental Regulation (Schmidt)

Literature:

Topic I: Price and Monopoly Regulation (Strausz)

- Armstrong, M. and D. Sappington (2006): Regulation, competition and liberalisation, *Journal of Economic Literature*.
- Armstrong, M. and D. Sappington (2007): Recent Developments in the Theory of Regulation, in: Armstrong, M. and R. Porter (eds.): *Handbook of Industrial Organization*, Volume III, Elsevier, Amsterdam .
- Baron, D. and R. Myerson. (1982): Regulating a Monopolist with Unknown Costs. *Econometrica* 50: 911-930.
- Laffont, J.J. and J. Tirole. (1986): Using Cost Observation to Regulate Firms. *Journal of Political Economy* 94: 614-641.
- Laffont, J.J. and J. Tirole. (1988): The Dynamics of Incentive Contracts. *Econometrica* 56: 1153--1175.
- Laffont, J.J. and J. Tirole. (1990): Adverse Selection and Renegotiation in Procurement. *Review of Economic Studies* 57: 579-625.
- Laffont, J.J. and J. Tirole. (1993): *A theory of incentives in regulation and procurement*, MIT Press.
- Vogelsang, I. (2002): Incentive Regulation and Competition in Public Utility Markets: A 20-Year Perspective, *Journal of Regulatory Economics* 22(1): 5-28.

Topic II: Regulation in Networks: interconnected networks and switching costs (Bedre-Defolie)

- Farrell, J. and P. Klemperer (2007): Coordination and lock-in: Competition with switching costs and network effects. *Handbook of Industrial Organization* Vol. 3, pp. 1967-2072.
- Klemperer, P. (1987): Markets with Consumer Switching Costs. *Quarterly Journal of Economics* 102(2): 375-394.

- Klemperer, P. (1987): The competitiveness of markets with switching costs. The RAND Journal of Economics 18(1): 138-150.
- Laffont, J.J, Rey, P. and J. Tirole (1998a): I. Overview and Nondiscriminatory Pricing. The RAND Journal of Economics 29(1): 1-37.
- Laffont, J.J, Rey, P. and J. Tirole (1998b): II. Price Discrimination. The RAND Journal of Economics 29(1): 38-56.
- Laffont, J.J., Markus, S. Rey, P. and J. Tirole (2003): Internet Interconnection and the Off-Net-Cost Pricing Principle. The RAND Journal of Economics 34(2): 370-390.

Topic III: Regulation in Networks: two sided markets and the internet (Baake)

- Bourreau, M., Kourandi, F. and Valletti T. (2013): Net Neutrality with Competing Internet Platforms, Working Paper.
- Economides, N. and Hermalin, B. (2012): The Economics of Network Neutrality, Rand Journal of Economics, 43, 602-629.
- Economides, N. and Tag, J. (2012): Network Neutrality on the Internet: A two-sided market analysis, Information Economics and Policy, 24, 91-104.
- Hermalin, B.E. and M.L. Katz (2007): The Economics of Product-Line Restrictions with an Application to the Network Neutrality Debate, Information Economics and Policy, 19, 215-248.
- Rysman, M. (2009): The Economics of Two-Sided Markets, Journal of Economic Perspectives, 3, 125-143.

Topic IV: Environmental Regulation (Schmidt)

- Baliga, S. and E. Maskin (2003): Mechanism Design for the Environment. Chapter 7 in: Handbook of Environmental Economics, Mäler and Vincent (Eds.).
- Boyer, M. and J.-J. Laffont (1999): Toward a Political Theory of the Emergence of Environmental Incentive Regulation. RAND Journal of Economics 30: 137-157.
- Helm, C. (2003): International emissions trading with endogenous allowance choices. Journal of Public Economics 87: 2737-2747.
- Goulder, L.H. and K. Mathai (2000): Optimal CO2 Abatement in the Presence of Induced Technological Change. Journal of Environmental Economics and Management 39: 1-38.
- Harstad, B. (2007): Harmonization and Side Payments in Political Cooperation. American Economic Review 97: 871-889.
- Laffont, J.-J. and J. Tirole (1996): Pollution permits and environmental innovation. Journal of Public Economics 62: 127-140.
- Newell, R.G. and W.A. Pizer (2003): Regulating stock externalities under uncertainty. Journal of Environmental Economics and Management 45: 416-432.
- Weitzman, M.L. (1974): Prices vs. Quantities. Review of Economic Studies 41: 477-491.

Time Schedule

Time: Fri., 14:00-16:00

Location: Room R21b, SPA1

Dates:

25.10.2013: Roland Strausz

01.11.2013: Roland Strausz

08.11.2013: Roland Strausz

15.11.2013: Özlem Bedre (Lecture starts at 14:00 sharp)

22.11.2013: Özlem Bedre (Lecture starts at 14:00 sharp)

29.11.2013: Özlem Bedre (Lecture starts at 14:00 sharp)

06.12.2013: Özlem Bedre (Lecture starts at 14:00 sharp)

13.12.2013: Pio Baake

20.12.2013: Pio Baake

10.01.2014: Pio Baake

17.01.2014: Pio Baake

24.01.2014: Robert Schmidt

31.01.2014: Robert Schmidt

07.02.2014: Robert Schmidt

14.02.2014: Robert Schmidt