RES EC 452
INDUSTRIAL ORGANIZATION: REAL MARKETS IN IMPERFECT COMPETITION

Fall 2016
TuTh 1:00 to 2:15 pm
Holdsworth 202

Professor: Dr. Nathalie Lavoie
Office: 220A Stockbridge Hall
Phone: 545-5713
E-mail: lavoie@resecon.umass.edu
Office hours: Monday, Wednesday, Friday, 1:00 – 2:45 pm, by appointment.
Please come prepared with a list of specific topics you’d like to discuss.

Teaching Assistant: Ms. Ezgi Cengiz (eaksar@umass.edu)
Office hours: Wednesdays, 4:30 to 6:00 pm in Stockbridge 215

Course Web Page: Most information relevant for this course will be posted on Moodle, please check regularly. Not everything will be posted on the course page and it is your responsibility to find out what has been said in class if you are absent. I will use the Announcements Forum to post all significant news about the class. Updates will be automatically sent from Moodle to your official UMass email. You are responsible for reading these announcements.

Still not sure when something is due? Ask the class using the Ask the Class forum in Moodle.

Course Description:
This course examines markets: their structure, the strategies used by firms involved in the markets, and the overall economic performance of markets. Markets in the real world depart from the economist’s simplified setting of perfect competition and these differences vary from minor to major factors affecting a market’s performance. Although all markets can be analyzed with the methods learned in this course, our primary emphasis will be on consumer goods markets. The analysis is from an industrial organization perspective and assumes knowledge of intermediate microeconomics. Topics included are: competition, market power, product differentiation, advertising, barriers to entry and exit, mergers, firm rivalry, competitive strategies including pricing and nonprice strategies, and market performance including prices, costs, labor issues, progressiveness, and product quality.

Students typically take RES EC 453 in the following semester, where the attention turns to public policy's role in market performance, covering such issues as competition policies (e.g., the antitrust laws) and industry regulations (e.g., nutrition labeling).

Learning Objectives:
- To express yourself in written and spoken form using appropriate economic and industrial organization (IO) terminology.
- To know, understand and use correctly the Structure-Conduct-Performance (SCP) paradigm to analyze market/industry events and situations.
- To understand and apply IO models and theories verbally, graphically and algebraically.

Integrative Experience:
This course will satisfy the General Education Integrative Experience requirement for Resource Economics majors when taken with ResEcon 394.
“The integrative Experience (IE) requirement at UMass Amherst addresses the challenges associated with educational fragmentation. Positioned in the upper-division, the IE provides students with a structured opportunity to look back on their early college learning experiences, reflect upon and make connections between those earlier experiences and the more advanced work in their major, and use their integrated learning to prepare for the demands of the world beyond the University.”

In this course, you will have the opportunity to reflect on prior GenEd and Resource Economics courses by engaging with current issues presented in Wall Street Journal articles in class and in the context of two course assignments (I.O. in the WSJ and the Industry Study). Rely on your past courses and experiences as well as the analytical framework in this course to analyze the articles.

In this class, you will practice the following two criteria of IE:

- The group project “I.O. in the WSJ” will offer you a shared learning experience with your project teammates for applying your prior learning here at UMass Amherst to a real-world issue related to the structure-conduct-performance of markets and presenting your analysis to class to stimulate discussion.
- You will have the opportunity to practice GenEd learning objectives of critical thinking, collaboration, and interdisciplinary perspective-taking by completing research on an industry of your choice.

**Required Material:**
2. *The Wall Street Journal*: Daily reading of relevant articles is required and, hence, may be referenced on exams. The WSJ will also be used for I.O. in the WSJ, Industry Study, homeworks, clicker questions, and exams. Reading the WSJ allows us to use and challenge the economic theory we are learning. [http://wsj.com/fall16](http://wsj.com/fall16)
3. *iClicker2*: This is a personal response system that you will use in class to respond to questions. Clickers start counting towards your grade on Thursday, September 8th.

**Course Work:**

**Homework:** There will be 4 to 6 assignments focusing on application of concepts. Assignments are due in class. Late homework will be assessed a 20% penalty per day. Homeworks are worth 18% of your grade and they can be done in teams (maximum three people). Team members will receive the same grade. I will drop your lowest homework score.

**Reflections:** As part of the Integrative Experience component of the course, you will be asked to reflect on your learning experience. The goal is to help you reflect on what you know, what you need to learn, how you learn it, and then reflect on what you have learned and how this is applicable beyond this course. The four reflections are worth 2% of your grade.

**I.O. in the WSJ:** We will have *Industrial Organization (I.O.) in the Wall Street Journal (WSJ)* on Thursdays. We will spend part of these Thursdays discussing recent articles in the context of the Structure-Conduct-Performance (SCP) Paradigm. More details will follow.

**Industry Case Study:** Pick an industry you are interested in studying this semester. Over the course of the semester, you will study its Structure, Conduct, and Market Performance. More details will follow. This study is done in a team and is worth 20% of your grade.

Note: late homeworks must be dated and signed by a member of the department (faculty or staff) if Nathalie is not in her office when it is dropped off. Otherwise, it will get dated at the time it is found.
Exams: One two-hour midterm exam is given during evening and is worth 20% of your course grade. The comprehensive final exam is worth 25% of your course grade. No make-up exam will be given without prior arrangement. Be prepared to document the reason of your absence and advise me ahead of time if possible by phone (413-545-5713, please leave a message with your phone number) and e-mail.

i>clicker Response System:
- i>clicker is an in-class communication system. It uses “clickers” to allow students to send answers in response to questions that I will pose during class. It will allow me to find out how the class grasps the material as a group and generate classroom discussions. It will allow you to check your understanding of the concepts during class.
- We will use this system every class period. Each class period is worth the same number of points regardless of the number of clicker questions.
- For survey-type questions (blue Powerpoint background), you will earn full credit for participating. For other questions (orange Powerpoint background), you will earn 50 percent of the points for the correct answer, and 50 percent to participate. In other words, you earn at least 2.5 percent of your grade just for participating.
- Clickers are used to help you learn and should improve your grade. However, if your clicker score is less than your Final Exam score, the clicker score will be removed from your grade and its weight will be added to the final exam's weight.
- I will drop your three lowest clicker scores. These “free passes” are to be used for absolutely any reason you have to miss class, forget clicker, etc.
- To get clicker credits, you must be present in class with your clicker and send your response to each question before the time expires (about 30 seconds). Given the nature of these assignments and the weight of each question on your final grade, under no circumstance you will be able to make-up clicker questions, including for technical problems with your clicker (it is your responsibility to monitor the life of your batteries and carry extra ones).
- The purpose of clicker in this course is not to take attendance, thus should you forget to bring your clicker you will not receive clicker participation credits.
- To obtain clicker credits, you must register your clicker in Moodle (see page 6).
- Bringing a friend's clicker to class to enter responses for your friend is cheating and will be treated as such (see Academic Dishonesty section).

Grades:
Grades will be calculated according to the following percentages:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework</td>
<td>18%</td>
</tr>
<tr>
<td>Reflections</td>
<td>2%</td>
</tr>
<tr>
<td>I.O. in the WSJ</td>
<td>10%</td>
</tr>
<tr>
<td>Industry Study</td>
<td>20%</td>
</tr>
<tr>
<td>iClicker</td>
<td>5% (or 0% if iClicker&lt;Final)</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>20%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>25% (or +5% if PRS&lt;Final)</td>
</tr>
</tbody>
</table>

Note: No extra credit will be given under any circumstance.

The minimum percentages needed for course grades are as follows:

<table>
<thead>
<tr>
<th>Course grade</th>
<th>F</th>
<th>D</th>
<th>D+</th>
<th>C-</th>
<th>C</th>
<th>C+</th>
<th>B-</th>
<th>B</th>
<th>B+</th>
<th>A-</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade points</td>
<td>-</td>
<td>1</td>
<td>1.3</td>
<td>1.7</td>
<td>2</td>
<td>2.3</td>
<td>2.7</td>
<td>3</td>
<td>3.3</td>
<td>3.7</td>
<td>4</td>
</tr>
</tbody>
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Quality participation and professionalism is expected and will affect borderline grades.
**Students with Special Needs:**
Students who need accommodation for a learning, physical, or psychological disability should inform me as soon as possible and provide documentation from Disability Services.

**Academic Honesty:**
Academic dishonesty (e.g., cheating) will not be tolerated. The official University Policy will be followed to the fullest extent in such cases where academic dishonesty is suspected. Please read what constitutes academic dishonesty at the University of Massachusetts: [http://www.umass.edu/ombuds/pdf/Academic_Honesty_Policy.pdf](http://www.umass.edu/ombuds/pdf/Academic_Honesty_Policy.pdf)

**Civility inside the Classroom**
Students are expected to assist in maintaining a classroom environment that is conducive to learning. To assure that all students have the opportunity to gain from time spent in class, I propose basic standards of classroom respect. Respect does not eliminate appropriate humor, enjoyment, or other indications of a pleasant classroom community. However, there is an expectation that all participants in this course will:
- Display respect for all in our classroom community: instructor, TA, and fellow students.
- Attend and participate in lectures, group discussions, and other classroom activities.
- Avoid unnecessary disruptions during class such as private conversations, reading newspapers, arriving late or leaving early, eating, texting and sleeping during class.
- Use your laptop only to take notes in class.
- Avoid negative language that is considered racist, sexist, or homophobic or in other ways may exclude members of our campus and classroom community.

**Civility outside the Classroom**
Please be respectful and use appropriate language when communicating with me over e-mail. E-mail is appropriate to schedule an appointment, notify me of an absence or tardiness, or for short questions to clarify class assignments or specific items from a lecture.

E-mail is not appropriate to deliver the following:
- Messages with inappropriate language.
- Requests for my lecture notes or asking if you “missed anything” when you miss a class. It is your responsibility to attend class and obtain notes. If you miss a class, obtain notes and other important information from a fellow student.
- Anything you would not be willing to communicate to me in person.

Office visits are the best way to ask questions about course material, and to discuss classroom issues or any other special concerns you may have about your class performance.
Important Dates – RESEC 452 (Industry Case Study deadlines are tentative)

- September 8, 2016: Clicker questions start counting towards your grade.
- September 14, 2016: Tell Nathalie by e-mail by 5 pm who you will be working with for I.O. in WSJ and the Industry Case Study.
- September 19, 2016: Last day to Add or Drop with no record.
- September 20, 2016: Case Study (CS) Installment 1 due.
- September 28, 2016: Homework #1 due.
- October 4, 2016: Homework #2 due.
- October 11, 2016: No class (Monday class schedule is followed)
- October 14, 2016: CS installment 3 due.
- October 20, 2016: Last day to drop with “W.”
- October 20, 2016: Homework #3 due.
- October 21, 2016: CS installment 4 due.
- October 25, 2016: Class canceled, optional Question Session.
- October 25, 2016: Midterm exam, 7-9 pm, Location TBA.
- October 31, 2016: CS installment 5 due.
- November 10, 2016: Homework #4 due.
- December 1, 2016: Homework #5 due.
- December 7, 2016: CS: Final submission due.
- December 21, 2016: Final Exam, 10:30 am to 12:30 pm, Goessmann Lab 20

Tentative Course Outline

I. The Basics of Industrial Organization
   A) Introduction
   B) Basic Theory
   C) Market Concentration
   D) Entry and Exit

II. Modern Industrial Organization: Game Theory and Strategic Behavior
   A) Game Theory: A Framework for Understanding Oligopolistic Behavior
   B) Oligopoly Theories of How Firms Compete
   C) Collusion: The Great Prisoner’s Dilemma
   D) Oligopoly Behavior: Entry and Pricing to Deter Entry.
   E) Oligopoly Behavior: Entry and Nonpricing Strategies to Deter Entry

III. Business Practices
   A) Product Differentiation and Advertising
   B) Market Power and Performance: The Empirical Evidence
   C) Price Discrimination (if time permits)