

**Competition Policy**  
**Programme of the Course**  
**Prof. Antonio Cabrales and Massimo Motta**  
**Spring 2005**

This course aims at giving both economics and law students an introduction to the basic issues of competition policy (also called "antitrust policy"). We shall mainly use extremely simple economics concepts and economic models to analyze competition policy issues.

The programme of the course is as follows:

**1. Competition policy: History, objectives and the law**

- ◆ Brief history of competition laws and enforcement in the US and the EU
- ◆ Objectives for competition policy and their compatibility with economic efficiency
- ◆ Brief introduction to EU competition law

**2. Market power and welfare**

- ◆ Market power reduces allocative and productive efficiency
- ◆ Competition policy and innovation
- ◆ Market power and free entry: contestable markets theory; sunk costs (finiteness property); switching costs; network externalities.

**3. Market power and market definition**

- ◆ How to measure market power
- ◆ How to define relevant (product and geographic) markets for antitrust purposes

**4. Cartels and tacit collusion**

- ◆ What is collusion: economics
- ◆ Analysis of repeated games: factors that facilitate collusion
- ◆ Tacit collusion under secret price cuts
- ◆ What is collusion: practice
- ◆ Ex-ante and ex-post measures to fight collusion

**5. Horizontal mergers**

- ◆ Single firm dominance (unilateral effects of mergers)
- ◆ Joint dominance (coordinated effects of mergers)
- ◆ The importance of efficiency gains: a simple framework of analysis
- ◆ Merger regulation in the EC

**6. Vertical restraints**

- ◆ Vertical externalities: the double marginalization case
- ◆ Horizontal externalities: services by retailers and the free-rider problem
- ◆ Mathewson-Winter's model: combining vertical restraints to internalize externalities
- ◆ Welfare effects of vertical restraints: intra-brand vs. inter-brand competition
- ◆ Vertical foreclosure: exclusive dealing and other instruments.

## **7. Price discrimination**

- ◆ The (ambiguous) welfare effects of price discrimination
- ◆ Anti-dumping: protectionism in disguise
- ◆ Parallel imports and the incentives to innovate.

## **8. Monopolisation practices**

- ◆ Predatory prices: long-purse and reputation models
- ◆ Tying and bundling
- ◆ Leverage in network industries
- ◆ Tests of anti-competitive behaviour

The course will be concluded with the discussion in class of some actual high profile cases – the exact number of cases discussed will depend on the number of students enrolled in the course. Materials to prepare the case will be distributed in class at the beginning of the course. Students' participation will be requested here. For each case, a group of students will be asked to "defend" the firm(s) while another group will be asked to support the thesis of the Competition Agency. A general discussion will follow.

A tentative list of cases being discussed includes:

- 1) Airtours
- 2) GE/Honeywell
- 3) Microsoft (European case)
- 4) Adalat
- 5) Ryanair

## **REQUIREMENTS**

Although knowledge of industrial organization is desirable, this is not a requirement. The material we are going to deal with makes use of elementary game theory and simple oligopoly models, which should be familiar to all graduate students.

## **GRADING**

Students' performance in presentations and general discussion of the cases will account for 25% of the final grade, the remaining 75% coming from the grade obtained in the final written exam.

# Competition Policy

## Reading List

Prof. Antonio Cabrales and Massimo Motta

The main textbook for this course is Motta, M. (2004), *Competition Policy: Theory and Practice*, Cambridge University Press. This book covers all the material we shall deal with in the course.

Some of the competition issues dealt with in the course are covered by industrial economics textbooks, such as: Tirole, Jean (1988), *The Theory of Industrial Organization*, The MIT Press, and Scherer, F.M. and D. Ross (1990), *Industrial Market Structure and Economic Performance*, Boston: Houghton Mifflin Co. (The former more rigorous and based on modern IO, the latter less useful for formalizations but making plenty of references to empirical evidence and antitrust cases.)

For a deeper knowledge competition law (to understand competition policy one should also have an idea about legal institutions and the law – although chapter 1 of Motta (2004) gives an introduction to them) students might want to look at Goyder, D.G. (1998), *EC Competition Law*, Third Edition, Clarendon: Oxford University Press, or Whish, R. (2001), *Competition Law*, Third Edition, Butterworths.

During the course, we shall look at some models in detail. Although they are described in the textbook mentioned above (Motta, 2004), it is strongly advised to look at the original papers. Other works will not be discussed in depth but they are nonetheless very interesting.

The following ones are therefore recommended readings.

2. Schmidt, Klaus M. (1997), "Managerial Incentives and Product Market Competition", *Review of Economic Studies* 64(2), 191-213.

Shaked, A. and J. Sutton (1983), "Natural Oligopolies", *Econometrica* 51, 1469-1484.

4. Bernheim, Douglas B. and Michael D. Whinston (1990), "Multi-market Contact and Collusive Behavior", *Rand Journal of Economics* 21(1), 1-26.

Green, E. and R. Porter (1984), "Non-Cooperative Collusion Under Imperfect Price Information", *Econometrica* 52, 87-100.

McCutcheon, B. (1997), "Do Meetings in Smoke-Filled Rooms Facilitate Collusion?" *Journal of Political Economy*, 105: 330-50.

5. Farrell, J. and C. Shapiro (1990), "Horizontal Mergers, An Equilibrium Analysis", *American Economic Review* 80, 107-125.

Perry, M.K. and R. Porter (1985), "Oligopoly and the Incentive for Horizontal Merger", *American Economic Review* 75, 219-227.

Salant, S., S. Switzer and R. Reynolds (1983), "Losses From Horizontal Merger:

The Effects of an Exogenous Change in Industry Structure on Cournot-Nash Equilibrium", *Quarterly Journal of Economics* 98, 185-199.

6. Aghion, P. and G. Bolton (1987), "Contracts as a Barrier to Entry", *American Economic Review* 77, 388-401.

Mathewson, G.F. and R.A. Winter (1984), "An Economic Theory of Vertical Restraints", *Rand Journal of Economics* 15, 27-38.

Rey, Patrick and Jean Tirole (1986), "The Logic of Vertical Restraints," *American Economic Review* 76, 921-939.

Rey, Patrick and Jean Tirole (February 1996), "A Primer on Foreclosure", mimeo.

Riordan, M.H. and S.C. Salop (1995), "Evaluating Vertical Mergers: A Post-Chicago Approach", *Antitrust Law Journal* 63, 513-568.

Segal, Ilya and Michael Whinston (1997), "Naked Exclusion and Buyer Coordination", Harvard, mimeo.

8. Bolton, G. and D. Scharfstein (1990), "A Theory of Predation Based on Agency Problem in Financial Contracting", *American Economic Review* 80, 93-106.

Kreps, D. and R. Wilson (1982), "Reputation and Imperfect Information", *Journal of Economic Theory* 27, 253-279.

Whinston, M. (1990), "Tying, Foreclosure, and Exclusion", *American Economic Review*, 80: 837-59.