EC337 Industrial Economics 2

Market Economics, Competition and Regulation

Dr. Chris Doyle (Office S2.104, x23935)
Autumn Term, 2013-14

Online course details and lecture slide packs available at:
http://www2.warwick.ac.uk/fac/soc/economics/ug/modules/3rd/ec337

Teaching format:
2 lectures per week and 4 seminars
Lectures: 12-1pm Monday, MS0.3 & 11-12pm Wednesday, MS0.3
Lectures start Wednesday 2 October and end Wednesday 4 December
Seminars: 5 groups, each group meeting 4 times
Groups 1, 3 & 5 in weeks 3, 5, 7 and 9 at 10am Monday H3.02, 9am Wednesday H0.02, and 2pm Tuesday TBD respectively
Groups 2 & 4 in weeks 4, 6, 8 and 10 at 10am Monday H3.02, and 9am Wednesday H0.02 respectively

Assessment methods:
Coursework (20%) – comprising 2 take-home problem sets each with four short questions comprising a total of 10% delivered using eSubmission. Problem Set 1 is due Friday 1 November and Problem Set 2 is due Friday 10 January. The end of year exam has two sections: Section A with two short questions and is compulsory; Section B with three questions from which one is selected. Past exam papers from 2010/11 onwards provide illustrations of the exam format. A revision lecture will be held at the beginning of Term 3 – notification about venue and date will be through MyEconomics.

Office hours: Tuesday 10am-12pm (Weeks 1-10, Term 1)

This course applies microeconomic principles and analytical tools to examine economic factors influencing the competitive status of markets. We shall describe markets in terms of effective competition with reference to economic efficiency. We will learn about the structural and behavioural factors that may lead to a lack of effective competition (market failure). The course will look at the economic foundations of competition policy and the economic principles guiding competition law in the EU and the UK.

The course comprises a set of one-hour lectures and four seminars. A familiarity with intermediate microeconomics is required and a background in Industrial Economics is helpful though not essential.

Lecture slides are distributed electronically as Adobe pdf files. No hard copy packs will be distributed. A final pack of all lecture slides and seminar material in hard copy format will be distributed at the beginning of Term 2.
Primary readings


Warwick University Library catalogue reference HN 4000.B3 (Short Loan, Main Library and ebook).


Warwick University Library catalogue reference KC 1019.2.O3 (Short Loan).

*Handbook of Antitrust Economics* (2008), edited by Paolo Buccirossi, MIT Press. [PB] Collection of readings by leading economists in the field

Warwick University Library catalogue reference HN 4700.H2. (3 copies, 2 Standard, 1 Short Loan)

*Cases in European Competition Policy: The Economic Analysis* (2009), edited by Bruce Lyons, Cambridge University Press. [BL] Useful collection of papers drawing on European competition cases

Warwick University Library catalogue reference KC 1019.2.C28. (4 copies 3 Day loan, 1 Grid use, 1 Short Loan)


Warwick University Library catalogue reference KN 266.W4. (7 copies, 3 Standard, 2 3 Day loan, 1 Grid use, 1 Short Loan) (older editions)
Background reading and resources

The Office of Fair Trading (OFT) has a wealth of information and many useful publications: [http://www.oft.gov.uk/](http://www.oft.gov.uk/)

See also the UK Competition Commission [http://www.competition-commission.org.uk/index.htm](http://www.competition-commission.org.uk/index.htm) and the UK Competition Appeal Tribunal [http://www.catribunal.org.uk/default.asp](http://www.catribunal.org.uk/default.asp)

Competition rules applicable to entities in the EU are enforced by DG Competition; its site has much information on cases, laws, consultation, etc.:


European Commission DG Competition (2010) “Best practices for the submission of economic evidence and data collecting in cases concerning the application of Articles 101 and 102 TFEU and in merger cases”:

Official documents published by the EU on executing merger policy:

Information about competition cases before the European courts:

Publications on the EU Chief Competition Economist homepage:

The following two texts may also be of interest:


Warwick University Library catalogue reference KC 1019.2:S4 (Short Loan)
Course Outline

Course overview: Economic Principles and Competition Law

Lecture 1

Economic concepts underpinning competition policy. A primer on market structures (perfect competition, monopoly, oligopoly), efficiency and economic welfare.

Reading

Ch. 2 [BP] ‘Firms, Consumers and the Market’
Ch. 1 [RW] “Competition Policy and Economics” sections 1-3
John Fingleton (2009) “Competition policy in troubled times” former CEO OFT

Competition Law and EU Practice

Lecture 2

The legal basis for the application of competition rules is set out with reference to the UK and the EU.

Reading

Ch. 1 [OP] “Introduction, Scope of Application and Basic Framework”
Ch. 1 [RW] “Competition Policy and Economics” section 4
Ch. 2 [RW] “Overview of EU and UK Competition Law”
The anatomy of a competition case: Apple ebooks case
Lecture 3

The ebooks trial began as the DOJ accused apple, along with five major ebooks publishers, of conspiring to raise the online price of ebooks beginning in 2009 in conjunction with the release of its e-reader, the iPad tablet. The DOJ claimed the collusion aimed to undercut Amazon’s dominance in the online ebooks retail market. All five publishers – Hachette Book Group, Macmillan, HarperCollins, Penguin Group and Simon & Schuster – settled with the DOJ before going to trial.

Reading

Judge Cote's Verdict (July 2013)
DOJ Statement (10 July, 2013)
Court Injunction (5 September 2013)

Market Definition
Lecture 4

The concept of a relevant market alternatively antitrust market is explained. Tools such as the hypothetical monopolist test and critical loss analysis are discussed.

Reading

Ch. 2 [BP] Section 2.3
Ch. 2 [OP] “Market Definition”
Ch. 1 [RW] section 5
European Commission official description of a ‘relevant market’

Two-sided and Multi-sided markets
Lectures 5-6

In many competitive markets there are multiple sides to the market, linked indirectly through platforms. This lecture will present both the theory of two-sided markets and its relevance to anti-trust.

Reading

Ch. 22 [BP] ‘Markets with Intermediated Goods’
Rochet, Jean-Charles and Jean Tirole (2008) “Competition Policy in Two-sided markets, with a special emphasis on Payment Cards” Ch. 15 [PB].
Ch. 8 [BL] Bruce Lyons “The Orders and Rules of British Horseracing: anticompetitive agreements or good governance of a multi-sided sport?”
Ch. 2.5.4 [OP] “Market Definition in Two-Sided Markets”
**Horizontal competition issues: Mergers and unilateral effects**

*Lectures 7-8*

These lectures look at unilateral effects associated with horizontal mergers and simulation methods applied in some cases.

**Reading**

Ch. 15 [BP] ‘Horizontal Mergers’
Ch. 20 & 21 [RW] “Mergers (1) – Introduction” and “Mergers (2) – EU Law”


Ch. 13 [BL] Margaret Slade “Merger simulations of unilateral effects: what can we learn from the UK brewing industry?”


Deloitte (2009) “Review of mergers decisions under the Enterprise Act 2002” a report for the Competition Commission, Office of Fair Trading and Department of Business, Enterprise and Regulatory Reform

**Horizontal competition issues: Upward pricing pressure**

*Lecture 9*

Measuring the impact of horizontal mergers in cases involving differentiated products.

**Reading**


Horizontal competition issues: Coordinated effects

Lectures 10-11

Horizontal merger effects on facilitating anti-competitive coordination. In this lecture we discuss two landmark cases in the EU addressing alleged anti-competitive coordinated effects: Airtours and Sony-BMG.

Reading

Ch. 14 [BP] ‘Cartels and Tacit Collusion’
Ch. 14 [RW] “Horizontal Agreements (2) – Oligopoly, Tacit Collusion and Collective Dominance”
Ch. 3 [PB] Kai-Uwe Kühn “The Coordinated Effects of Mergers”
Ch. 8 [PB] Paolo Buccirossi “Facilitating Practices”
Airtours CFI Decision
Sony-BMG case EC merger clearance
Ch. 14 [BL] Eliana Garces-Tolon, Damien Neven & Paul Seabright “The ups and downs of the doctrine of collective dominance: using game theory for merger policy”

Horizontal competition issues: Cartels

Lecture 12

The issue of detecting anti-competitive cartels and the role of whistleblowing policies are discussed.

Reading

Ch. 14 [BP] ‘Cartels and Tacit Collusion’
Ch. 6 [PB] Joseph Harrington “Detecting Cartels”
Ch. 7 [PB] Giancarlo Spagnolo “Leniency and Whistleblowers in Antitrust”
Ch. 13 [RW] “Horizontal agreements (1) – cartels”
Horizontal competition issues: Pricing abuses
Lecture 13

Prices set by market ‘leaders’ may constitute an abuse of dominance in the EU. Abusive pricing may involve high or low prices, rebates, bundling and price discrimination.

Reading

Ch. 16 [PB] Section 4 ‘Strategic Incumbents and Entry’
Ch. 5 [OP] “Predatory pricing”
Ch. 12 [OP] “Excessive pricing”
Ch. 18 [RW] “Abuse of Dominance (2) – Pricing practices” (exclude section 7 on margin squeezing)


Vertical competition issues: Vertical restraints & refusal to supply
Lectures 14-15

This lecture will set out an introduction to the economics of vertical restraints outlining the need to take account of possible benefits as well as costs. I will also discuss refusal to supply. Refusing to deal has been a common theme in European competition policy as a result of dominant incumbents possessing market power and leveraging positions in liberalised network industries.

Reading

Ch. 17 [BP] ‘Vertically Related Markets’
Chs. 7 & 8 [OP] “Exclusive Dealing, Loyalty Discounts and Related Practices” and “Refusal to Deal”
Ch. 16 & 17 [RW] “Vertical Agreements” and “Abuse of Dominance (1) – Non-Pricing Practices”
Ch. 9 [PB] Patrick Rey and Thibaud Vergé “Economics of Vertical Restraints”

Vertical competition issues: Margin Squeezing
Lecture 16

The economics of margin squeezing is presented and the Deutsche Telekom case is discussed.

Reading

Ch. 6 [OP] “Margin Squeeze”
Ch. 18 section 7 [RW] “Abuse of Dominance (2) – Pricing Practices”


Deutsche Telekom case: CFI 10 April 2008, Judgment of the ECJ 14 October 2010
Intellectual Property, Innovation and Competition Policy
Lectures 17-18

The conflict that can arise between *ex ante* and *ex post* competition, licensing and patents are discussed.

**Reading**

Ch. 19 [BP] ‘Intellectual Property’

Ch. 14 [PB] Richard J. Gilbert “Competition policy for intellectual property”

Ch. 19 [RW] “The relationship between intellectual property rights and competition law”


Retail Banking and Competition in the UK
Lecture 19

Retail banking in the UK is very concentrated with a few major banks having most market share. In light of the financial crisis which began around 2008, policy makers in the UK have focussed on the apparent lack of competitiveness in retail banking and possible measures to remedy identified problems arising as a result. These two lectures will examine the economic issues arising in the debate.

**Reading**

Independent Commission on Banking (2011)


OFT (2013) Review of the personal current account market

OFT (2010) Review of barriers to entry, expansion and exit in retail banking

END