

THE UNIVERSITY OF WARWICK
Department of Economics
EC946
Industrial Economics: Vertical Control

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M. Slade

Room 2.117

Office hours: Tuesday 2-4

Telephone: 02476 523056

email: m.slade@warwick.ac.uk

Journal Abbreviations

AER	American Economic Review
BJE	Bell Journal of Economics
BPEA	Brookings Papers on Economic Activity
CJE	Canadian Journal of Economics
EC	Economica
EJ	Economic Journal
EM	Econometrica
IER	International Economic Review
IJIO	International Journal of Industrial Organization
JAЕ	Journal of Accounting and Economics
JAR	Journal of Accounting Research
JCF	Journal of Corporate Finance
JEBO	Journal of Economic Behavior and Organization
JEEA	Journal of the European Economic Association
JEMS	Journal of Economics and Management Strategy
JEP	Journal of Economic Perspectives
JET	Journal of Economic Theory
JFE	Journal of Financial Economics
JIE	Journal of Industrial Economics
JLabE	Journal of Labor Economics
JLE	Journal of Law and Economics
JLEO	Journal of Law, Economics, and Organization
JOB	Journal of Business
JOF	Journal of Finance
JPE	Journal of Political Economy
MS	Management Science
QJE	Quarterly Journal of Economics
RJE	Rand Journal of Economics
RES	Review of Economic Studies
REStat	Review of Economics and Statistics

There is no required textbook for this course. However, the following textbooks might be helpful for background reading:

Tirole, J. (1988) The Theory of Industrial Organization, Cambridge: The MIT Press.

Church, J. and Ware, R. (2000) Industrial Organization, Boston: McGraw-Hill.

Milgrom, P. and Roberts, J. (1992) Economics, Organization, and Management, Prentice Hall.

Background Reading

Tirole, chapter 1
Church and Ware, chapter 3

1. Vertical Integration and Restraints: Traditional Considerations

Tirole, chapter 4.
Church and Ware, chapter 22.

1A: Market-Power Motives for Vertical Integration

Spengler, J.J. (1950) "Vertical Integration and Antitrust Policy," JPE, 58: 347-352.
Warren-Boulton, F.R. (1974) "Vertical Control With Variable Proportions," JPE, 82: 783-802.
Gould, J.R. (1977) "Price Discrimination and Vertical Control," JPE, 85: 1063-1071.
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Salinger, M.A. (1988) "Vertical Mergers and Market Foreclosure," QJE, 103: 345-356.

Empirical Papers:

Mullin, J.C. and Mullin, W.P. (1997) "United States Steel's Acquisition of the Great Northern Properties: Vertical Foreclosure or Efficient Contractual Governance," JLEO, 13: 74-100.
Chipty, T. (2001) "Vertical Integration, Market Foreclosure, and Consumer Welfare," AER, 91: 428-453.
Hortacsu, A. and Syverson, C. (2005) "Cementing Relationships: Vertical Integration, Foreclosure, Productivity, and Prices," University of Chicago mimeo.

1B: Vertical Separation and Restraints

Market Power Motives:

Blair, R.D. and Kasserian, D. (1978) "Vertical Integration, Tying, and Antitrust Policy," AER, 68:397-402.
Rey, P. and Tirole, J. (1986) "The Logic of Vertical Restraints," AER, 76:921-939.
Whinston, M. (1990) "Tying, Foreclosure, and Exclusion," AER, 80: 837-859.
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Carlton, D. and Waldman, M. (2002) "The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries," RJE 33: 194-220.

Efficiency Motives:

Telser, L. (1960) "Why Should Manufacturers Want Fair Trade," JLE, 3: 86-105.
Marvel, H. (1982) "Exclusive Dealing," JLE, 25: 1-25.
Mathewson, G.F. and Winter, R.A. (1984) "An Economic Theory of Vertical Restraints," RJE, 15:27-38.
Marvel, H.P. and McCafferty, S. (1984) "Resale Price Maintenance and Quality Certification," RJE, 15: 346-359.
Klein, B. and Murphy, K.M. (1988) "Vertical Restraints as Contract Enforcement Mechanisms," JLE, 31: 265-297.
Deneckere, R., Marvel, H, and Peck, J. (1996) "Demand Uncertainty, Inventories, and Resale Price Maintenance," QJE, 111: 885-913.

Empirical Papers:

- Barron, J.M. and Umbeck, J.R. (1984) "The Effects of Different Contractual Arrangements: The Case of Retail Gasoline," JLE, 27: 313-328.
- Ornstein, S.I. and Hanssens, D.M., (1987) "Resale Price Maintenance: Output Increasing or Restricting? The Case of Distilled Spirits in the U.S.," JIE, 36: 1-18.
- Sass, T.R. and Saurman, D.S. (1993) "Mandated Exclusive Territories and Economic Efficiency: An Empirical Analysis of the Malt-Beverage Industry," JLE, 36: 153-177.
- Slade, M.E. (1995) "Beer and the Tie: Did Divestiture Cause Higher Prices?," EJ, 108: 565-602.
- Slade, M.E. (1998) "Strategic Motives for Vertical Separation: Evidence from Retail Gasoline" JLEO, 14: 84-113.
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2. The Entrepreneurial Firm

Milgrom and Roberts, chapter 7.

2A: Markets or Firms? Early Theories

- Knight, F. (1921) Risk, Uncertainty, and Profit, Chicago: Houghton Mifflin.
- Coase, R. (1952) "The Nature of the Firm," Ec, 4: 386-405.
- Alchian, A.A. and Demsetz, H. (1972) "Production, Information Costs, and Economic Organization," AER, 62: 777-795.

2B: The Moral-Hazard Model

- Holmstrom, B. (1982) "Moral Hazard in Teams," BJE, 13: 324-340.
- Rasmusen, E. (1987) "Moral Hazard in Risk-Averse Teams," RJE, 18: 428-435.
- Gibbons, R. (1987) "Piece-Rate Incentive Schemes," JLabE, 5: 413-429.
- Holmstrom, B. and Milgrom, P. (1991) "Multi-Task Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," JLEO, 7: 24-51.
- Kandel, E. and Lazear, E. (1992) "Peer Pressure and Partnerships," JPE, 100: 801-817.
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- Lafontaine, F. (1992) "Agency Theory and Franchising: Some Empirical Results," RJE, 23: 263-283.
- Lang, K. and Gordon, P.J. (1995) "Partnerships as Insurance Devices: Theory and Evidence," RJE, 26: 614-629.
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- Slade, M. (1996) "Mutlitask Agency and Organizational Form: An Empirical Exploration," IER, 37: 465-486.
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- Hamilton, B.H., Nickerson, J.A., and Owan, H. (2003) "Team Incentives and Worker Heterogeneity: An Empirical Analysis of the Impact of Teams on Productivity and Participation," JPE, 111: 465-497.

2C: The Transaction-Cost Model

- Klein, B., Crawford, R. and Alchian, A. (1978) "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," JLE, 21: 297-326.
- Williamson, O.E. (1971) "The Vertical Integration of Production: Market Failure Considerations," AER, 61: 112-123.
- Williamson, O.E. (1979) "Transaction Cost Economics: The Governance of Contractual Relations," JLE, 22: 233-262..
- Williamson, O. (1983) "Credible Commitments: Using Hostages to Support Exchange," AER, 73: 519-540.
- Bajari, P. and Tadelis, S. (2001) "Incentives versus Transaction Costs: A Theory of Procurement Contracts," RJE, 32: 387-407.

Empirical Papers:

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- Masten, S.E. (1984) "The Organization of Production: Evidence from the Aerospace Industry," JLE, 27: 403-417.
- Anderson, E. and Schmittlein, D.C. (1984) "Integration of the Sales Force: An Empirical Investigation," RJE, 15: 385-395.
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- Bull, C. (1987) "The Existence of Self-Enforcing Contracts," QJE, 102: 147-159.
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- Levin, J. (2003) "Relational Incentive Contracts," AER, 93: 835-857.

Applied Papers:

- Palay, T. (1984) "Comparative Institutional Economics: The Governance of Rail Freight Contracting," JLS, 13: 265-287.
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- Kaufmann, P.J. and Lafontaine, F. (1994) "Costs of Control: The Source of Economic Rents for McDonald's Franchisees," JLE, 37: 417-454.
- McMillan, J. and Woodruff, C. (1999) "Dispute Prevention Without Courts in Vietnam," JLEO, 15: 637-657.

2F: Recent Overviews

- Holmstrom, B. (1999) "The Firm as a Subeconomy," JLEO, 15: 74-102.
- Holmstrom, B. and Roberts, J. (1998) "The Boundaries of the Firm Revisited," JEP, 12: 73-94.
- Whinston, M.D. (2003) "On the Transaction Cost Determinants of Vertical Integration," JLEO, 19: 1-23.
- Gibbons, R. (2005) "Four Formal(izable) Theories of the Firm?" JEBO, 58: 200-245.
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3. The Managerial Firm

- Berle, A. and Means, G. (1933) The Modern Corporation and Private Capital, New York: Macmillan.

3A: Managerial Incentives and Labor-Market Discipline

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3B: Product-Market Discipline

- Hart, O. (1983) "The Market Mechanism as an Incentive Scheme," BJE, 74: 366-382.
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Empirical Paper:

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3C: Capital-Market Discipline

- Manne, H.G. (1965) "Mergers and the Market for Corporate Control," JPE, 73:110-120.
- Grossman, S. and Hart, O. (1980) "Takeover Bids, the Free Rider Problem, and the Theory of the Corporation," BJE, 11: 42-64.
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4. Inside the Firm

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4C: Internal Labor Markets

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