

Short Course: Foundations for research in collusive conduct: bidding rings and cartels

Description

The course will cover the foundations for the economic analysis of collusive conduct, including cartels and bidding rings. The first part of the course will begin with a brief review of relevant results from auction theory and then consider models of collusion at first and second price auctions as well as the implementation of bidder collusion by actual bidding rings. The second part of the course will begin with a brief review of seminal models of tacit collusion and then consider models of explicit collusion. Topics covered will include the economic analysis of collusive pricing strategies, lingering effects, monopolization conduct by cartels, interaction between collusion and mergers, detection of and defense against collusion, and policies related to leniency and plea agreements. Students will be asked to become familiar with one bid rigging case and one cartel case. Topics for future research will be highlighted throughout.

Course Details

Part I: Claudio Mezzetti

Lectures: 10am – 12 noon June 17 (M), 18 (T), 19 (W)

Office hours: 1:00pm – 2:00pm June 17, 18, 19

Part II: Leslie Marx

Lectures 10am – 12 noon June 24 (M), 25 (T), 26 (W)

Office hours: 1:00pm – 2:00pm June 24, 25

Part I: Bidding Rings

Introduction:

Equilibrium at first and second price auctions and revenue equivalence. Equilibria at first price auctions with heterogeneous bidders (Marshall, Meurer, Richard, and Stromquist (GEB, 1994)).

Each student will be asked to familiarize himself or herself with a bid rigging case. Examples include: (1) Addyston, (2) John Asker's stamp cartel (NY et al. v. Feldman et al.), (3) disk drives (optical disk drives complaint), (4) antiques (U.S. v. Ronald Pook), (5) machinery (U.S. v. Seville Industrial Machinery Corp.), (6) real estate (District of Columbia, ex rel. John Payton, Corporation Counsel v. George Basiliko, et al.), (7) U.S. v. Inryco (1981), (8) U.S. v. Lyons (1982), (9) U.S. v. Metropolitan (1984), (10) U.S. v. A-A-A Electrical (1986), (11) U.S. v. Brinkley & Son (1986), (12) and Finnegan v. Campeau (1989).

Theory of collusion at auctions:

- First price collusion: McAfee and McMillan (AER, 1992)
- Second price collusion: Mailath and Zemsky (GEB, 1991)

- Contrasting first and second price collusion: Marshall and Marx (JET, 2007)
- Additional research
 - Lopomo, Marshall, and Marx, "Inefficiency of Collusion at English Auctions," *Contributions in Theoretical Economics* 5 (1), Article 4 (2005).
 - Lopomo, Marx, and Sun, "Bidder Collusion at First-Price Auctions," *Review of Economic Design* 15(3), 177-311 (2011).
 - Brusco and Lopomo (RES, 2002)

Theory put into practice:

- Sealed-bid auction: Addyston Pipe (Marshall and Marx (book, 2012, chapter 9.6.1) and Kumar, Marshall, Marx, and Samkharadze (2013))
- Ascending-bid auction with limited observability of bidder identities at the auction: Wholesale stamp dealers (Marshall and Marx (book, 2012, chapter 9.6.2), Asker (2010), Graham, Marshall, and Richard (1990))
- Ascending-bid auction with full observability of bidder identities at the auction: Antiques, machinery, and real estate (Marshall and Marx (book, 2012, chapter 9.6.3) and Graham and Marshall (1987))
- Current issues: Collusion in two-sided auctions (Loertscher, Marx, and Wilkening (WP, 2013) and Milgrom (book, 2004))

Part II: Cartels

Introduction:

- How to read an EC cartel decision (10-minute discussion). Each student will be asked to read a cartel case. Examples include EC decisions in: Organic Peroxides, Heat Stabilisers, Vitamins, Electrical and Mechanical Carbon and Graphite Products, Food Flavour Enhancers, Citric Acid, Amino Acids, Choline Chloride.
- Tacit versus explicit collusion (Tirole textbook (price comp version of Green and Porter), Green and Porter (EMA, 1984), Green, Marshall, and Marx (Sokol chapter, 2013) and discussion of the law)

Economics of explicit collusion:

- Economics of explicit collusion (Marshall and Marx (book, 2012, chapters 5 and 6))
- Pricing structures and lingering effects in Vitamins (Marshall, Marx, and Raiff (IJIO, 2008) and Kovacic, Marshall, Marx, and Raiff (Vivek chapter, 2007))
- Allocation structures and monopolization conduct by cartels (Marshall, Marx, and Samkharadze (WP, 2013))

Detection and policy implications related to explicit collusion:

- Buyer resistance and data on interaction between collusion and mergers (Kumar, Marshall, Marx, and Samkharadze (WP, 2013) and Marx and Zhou (WP, 2013))

- Detection and defense (Kovacic, Marshall, Marx, and White (MLR, 2011), Marshall and Marx (QJE, 2009), and Kovacic, Marshall, Marx, and Raiff (Spagnolo chapter, 2006))
- Leniency and Plea Agreements (Chen and Rey (WP, 2012), Marshall, Marx, and Mezzetti (WP, 2013), and Kovacic, Marshall, and Marx (Choi WP, 2013))