What you know

• Perfect competition is efficient
  – because it ensures price = MC
• Monopoly is inefficient
  – because it ensures price > MC
So What?

• Does perfect competition ever happen?
• Is imperfect competition fairly efficient?
  – How imperfect does it tend to be?
    • How can we tell?
  – Compared to what?
    • Couldn’t government keep price near MC?
• Anyway, why obsess over prices?
  – Isn’t it more important that things be run efficiently and imaginatively?
  – Answer to bullet #2 suggests so?

You need this class

• It’s your best chance to learn answers to those questions
  – Otherwise, you wasted that Econ 101 time
• It’s where microeconomic analysis meets the real world of business and policy
  – Competitive strategy
  – Procurement
  – Antitrust
  – Regulation
Why you need this class (2)

• It’s far more interesting than econ 100/101, which you voluntarily took
• But don’t come to me to add the class
  – Why that’s a bad idea
  – A much better idea

Pause for diagnostics

• Cournot oligopoly model?
• Bertrand model?
  – Differentiated?
• Vertical integration?
• Horizontal mergers?
• Partial derivative?
• Linear regression?
• Herfindahl index?
The Big Themes

• What competition is (and isn’t) good at
• How much competition there is
  – What determines/affects this
  – How to tell
• What we do about it
  – Antitrust, regulation
• Prices
• How things are organized
  – Lost luggage and yield management
  – Does market system sort-of evolve to efficiency?

Lost luggage and yield management

• Are airlines run by incompetent morons?
• Are they run by ruthless bastards?
  – And why would ruthlessness lead to bad customer service?
    • Adam Smith on the baker
• Am I atypical?
• Am I wrong?
• Technocratic second-guessing and incentives analysis
• Starting to think like an economist
Modularity and the Internet

- Cable companies provide most residential high-speed internet access in US
  - Little regulation
  - Less and less regulation on phone companies’ internet access products too
- Will Comcast do a deal with Travelocity?
  - Excluding Expedia
  - Incentives
  - Would it be so bad? How does that relate?

(B) Class Organization

- You must attend class and section
  - Reading the textbook is not a good substitute
    - It’s not my linear algebra class
  - Attendance will be noted
  - Active participation will be noted
- Grading
- Office hours
- Class representation
(C) What is a Firm?

- Zone of command-and-control embedded within market economy
  - Fuzzy idea: incentives within firms; long-term deals across firm boundaries. Nevertheless…
- Biggest unit whose behavior we assume to be maximizing something (profit)
  - Do firms actually maximize?
  - Is there a better way to analyze economics?

Costs (C&P chapter 2)

- You know this material from 101
  - How long ago?
  - Don’t worry about multi-product costs yet
- We’ll use it, not focus on it
- Don’t let jargon obstruct thought
  - Potential energy
  - Short-run and long-run
  - How costs feature in predation policy, trade policy
Warm-up exercises on costs

- Baggage handlers
- Diagnosing fat in gold mining

Economies of Scale

- Traditional IO theme
  - Concentration bounded (determined?) by scale economies
  - Too bad about the market power, but...
- Stalin, Mao, and the steel industry
- An envelope argument for economies of scale
  - Is this right? What is missing?
For Next Time

• Read C&P chapter 3—as carefully as you have time for, but read it
  – You already largely know it
  – There will be time to go back to it later
  – Don’t obsess over definition of entry barrier
  – First part of page 76 is garbled: how?

• We will discuss welfare economics of competition more broadly