University of California, Berkeley Fall semester 2001
Economics 123: Antitrust and regulation
Professor Joseph Farrell, 519 Evans Hall, farrell@econ.berkeley.edu
Office hours: Thursdays 10:30 - 11:45.

This class is about public policy attempts to achieve economic efficiency (and sometimes other goals) when textbook perfect competition does not apply. First we will study antitrust, which might be defined as protecting competition against forces that might tend to reduce or eliminate it. Then we will study regulation, which might be defined as correcting externalities and counteracting existing market power.

About your professor: In addition to experience as a professor at MIT and here, highlights of my work experience include a year (7/2000-6/2001) as chief economist and Deputy Assistant Attorney General at the Justice Department, doing antitrust policy. Five years ago (during the implementation of the Telecommunications Act) I was chief economist at the FCC. This has made me sometimes opinionated about antitrust and regulation. As well as antitrust and telecommunications policy, my research has focused on compatibility standards, game theory, innovation and intellectual property.

For enrollment and such topics, don't ask me: try http://emlab.Berkeley.EDU/econ/rca/rcahome.html, or contact Sean Flynn, 508-2 Evans, sflynn@econ.berkeley.edu.

Our classroom is in the library so additional rules apply: No food; show an ID; I'm told there are more but I only heard about these an hour ago.

Although we will begin with some diagnostics and review, I will assume that you know basic microeconomics and industrial organization. If you don't, you can still see whether the administrative organs will let you enroll, but it is at your own risk.

We will combine theoretical study with the analysis of real-world cases; there may be quite a lot of assigned reading, especially when we come to the cases, but much of it is a less intense form of reading than is studying a textbook. I try to stress a modest number of key concepts; if you truly grasp those, you should do well in the class. But as some of you know, economics involves sometimes surprisingly subtle applications of what might sound like very obvious concepts.

The starting text is Viscusi, Vernon and Harrington. It is available at the bookstore. A second text is Brock, *Telecommunications*; we won't use this right away, so I recommend that you postpone buying it for few weeks.

Although there is a lot of good material in VVH, reading it is not an acceptable substitute for class participation, which is REQUIRED. You will be called on. This is not Harvard Law School and it's not my goal to embarrass you horribly if you can't answer a question in class, but if you keep not doing so (or keep not being present) it will definitely affect my assessment of how well you have learned the material.

Having not taught an undergrad class in some time, I am a little unsure how fast we will go, so rather than lay out a full semester's classes and then have to change it, here is the outline for tentatively the first few weeks.

Week 1: Shakedown, diagnostics/review (especially of firm-specific elasticity, its relevance and where it comes from), assessment of class interests. *Read* VVH chapter 3.

Week 2: Collusion and price-fixing. *Read* VVH chapter 5. Theory of collusion and its problems. Discussion of cases in VVH chapter 5 plus Christie's/Sotheby's. Leniency policy and international antitrust.

Week 3: Facilitating practices, especially price protection and price-matching. GE-Westinghouse. Airlines. Nasdaq.

Week 4: Horizontal mergers. *Read* VVH chapter 7 (up to p.213). *Read* Horizontal Merger Guidelines (available at www.ftc.gov). Unilateral and coordinated effects. Efficiencies. Entry. Remedies. Airline mergers. Heinz-BeechNut. Staples-Office Depot. GE-Honeywell.

Week 5 (by this point the schedule will *surely* have shifted): Vertical relationships. Complementarity, double marginalization, the one monopoly rent theorem and its weaknesses. Exclusion. Asymmetric competition. Microsoft. Intel.