

Rutgers University - New Brunswick

ECONOMICS 523: INDUSTRIAL ORGANIZATION II
SPRING 2018

Instructor: Tomas Sjöström, New Jersey Hall 301C, 932-7363, email: tsjostrom@economics.rutgers.edu.

Time and Location: We 11:30 - 12:50 and Fri 1:10 - 2:30 in Scott Hall 121.

Office Hours: We 1:30-2:30, NJ Hall 301C

Textbook: “Contract Theory” by P. Bolton and M. Dewatripont.

Learning Goals and Assessment: The objective of this course is to familiarize the students with classic topics in Industrial Organization theory, and the most important theoretical contributions to these topics. At the end of the course, the students should have a sufficient understanding of this field to be able to produce their own independent research. A term paper is required; it must be presented in class before the end of the semester. (It must relate to a topic discussed in class, and it must be new work; it is not permissible to recycle a term paper from another class).

Course Outline

PART A: Contract Theory

A1. Moral Hazard

B&D Ch. 4

Holmstrom, B. (1979), “Moral Hazard and Observability,” *Bell Journal of Economics*, 10, 74-91.

Holmstrom, B. and P. Milgrom (1987), “Aggregation and Linearity in the Provision of Intertemporal Incentives,” *Econometrica*, 55, 303-328

Holmström, B. (1999), “Managerial Incentive Problems: A Dynamic Perspective”, *Review of Economic Studies*, 66, 169–182

Bertrand M. and S. Mullainathan (2001) “Are CEOs Rewarded for Luck? The Ones Without Principals Are,” *Quarterly Journal of Economics* 116, 901-932.

A2. Teams and Tournaments

B&D Ch. 8

Holmstrom, B. (1979), “Moral Hazard in Teams,” *Bell Journal of Economics*, 13, 324-40.

Lazear, E. P. and S. Rosen (1981) “Rank-Order Tournaments as Optimum Labor Contracts,” *Journal of Political Economy*, 89, 841-864.

A3. Incomplete Contracts

B&D Ch. 11&12

Grossman, S.J., and O. Hart (1986), “The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration,” *Journal of Political Economy*, 94, 691-719.

Hart, O. and J. Moore (1990), “Property Rights and the Nature of the Firm,” *Journal of Political Economy* 98, 1119-1158.

A4. Adverse Selection

B&D Ch. 2&3

Laffont, J.J. and J. Tirole (1986), “Using Cost Observation to Regulate Firms,” *Journal of Political Economy*, 94, 614-41.

A5. Mechanism Design

B&D Ch 7

d’Aspremont, C. and L.A. Gérard-Varet (1979), “Incentives and Incomplete Information,” *Journal of Public Economics*, 11, 25–45

Myerson, R. (1981), “Optimal Auction Design,” *Mathematics of Operation Research*, 6, 58-73.

Myerson, R. and M. Satterthwaite (1983), "Efficient Mechanisms for Bilateral Trading," *Journal of Economic Theory*, 29, 265–281.

A6. Financial Contracts

B&D Ch. 5

Townsend, R. (1979), "Optimal Contracts and Competitive Markets with Costly State Verification," *Journal of Economic Theory*, 21, 265-93.

PART B: Strategic Behavior in Markets (preliminary)

B1. Market breakdown

B&D Ch. 13

Akerlof, G. (1970), "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, 84, 488-500.

Rothschild, M. and J. Stiglitz (1976), "Equilibrium in Competitive Insurance Markets," *Quarterly Journal of Economics*, 90, 630-49.

B2. Strategic substitutes and complements

Bulow, J., J. Geanakoplos, and P. Klemperer (1985) "Multimarket Oligopoly: Strategic Substitutes and Complements", *Journal of Political Economy*, 95, 178-182.

Fudenberg, D., and J. Tirole (1984) "The Fat Cat, The Puppy Dog Ploy and the Lean and Hungry Look," *American Economic Review, Papers and Proceedings*, 74, 361-368.

B3. Entry deterrence

B&D Ch. 13

Aghion, P. and P. Bolton (1987), "Contracts as a Barrier to Entry," *American Economic Review*, 77, 388-401.

Milgrom, P. and J. Roberts (1982) "Limit Pricing and Entry under Incomplete Information: An Equilibrium Analysis," *Econometrica*, 50, 443-459

B4. Collusion

Rotemberg, J. and G. Saloner (1986) "A Supergame-Theoretic Model of Price Wars during Booms," *American Economic Review* 76: 390-407

B5. Networks and switching costs

B&D Ch. 13

Katz, M. and C. Shapiro (1985), "Network Externalities, Competition, and Compatibility" *American Economic Review*, 75:424-440

Klemperer, P. (1987), "Markets with Consumer Switching Costs", *Quarterly Journal of Economics*, 102: 375-394