



# Course Syllabus

## Industrial Economics 2018–19

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### Description

*Industrial Economics (IE)* or *Industrial Organization* as it is usually known, is the area of economics that studies the markets as institutions, the state of competition, the strategic interaction among firms, the industrial policy and the business decisions companies make within the market environment. IE approaches the markets from three different perspectives: the economic *theory*, the *applied* business perspective and the *institutional* perspective. The course's focus is the economic theory but the business and institutional component will be incorporated in several topics with real life examples and case studies. IE topics include negotiations, antitrust, networks, platforms, e-markets, intellectual property, business strategies, predation, entry deterrence, supply chains and many others.

### Difference from Microeconomics

Contrary to what most students initially believe, IE is not simply a more detailed look into the microeconomic models. The study of microeconomics focuses on the *function* of the tools. That is, the learner is provided with a specific model and is asked to work out a solution. IE on the other hand, focuses on the *use* of the microeconomic tools. This means that the student is provided with a real situation or a hypothetical scenario and the goal is to figure out which model must be used, while the technical part of the solution is of secondary importance.

### Objectives & Outcomes

The main objective of this course is to connect the theoretical microeconomics knowledge acquired in the entire duration of studies to the organization of real business. By the end of the course the student will have a spherical understanding about how modern firms function and interact within the institutional framework of the market.

### Prerequisites

The course requires knowledge of *intermediate microeconomic theory* (especially production/cost theory), basic *econometrics* and advanced *calculus*. Third year *Game Theory* will be a plus in understanding the material deeper.

### Resources

- There is a **website** dedicated to the course at [www.kmarinakis.org/ie](http://www.kmarinakis.org/ie). Reading lists, grades, assignments, announcements and updates to the course calendar will be posted there in a regular basis.
- There is a **Telegram channel** [https://t.me/icef\\_industrial](https://t.me/icef_industrial) for alerts and updates for the course.
- **Main reading** is Church J., & R. Ware, "*Industrial Organization: A Strategic Approach*" (Irwin, 2000).
- **Supportive reading** is Symeonidis, G., "*Industrial Economics: University of London Study Guide*", (UoL, 2015).
- **Reference reading** is Tirole, J., "*The Theory of Industrial Organization*", (MIT Press, 1992).
- **Handouts of slides** will be available on the website after the lectures.

### Teaching

There will be one 80-min lecture and one 80-min lab per week for a total of 28 lectures, spread across 4 modules (of 7 lectures each). Lectures and labs will be in English. In case a lecture is cancelled it will be rescheduled. A course calendar with the schedule of the lectures is posted and regularly updated on the website.

### Attendance

This course is lecture oriented and attendance will play a key role. Attendance record will be kept and may affect the final grades through bonuses. Students are encouraged to participate in the lecture. Questions are welcomed.

## Office Hours

There are “open-door” office hours every Tuesday at 16:45 – 17:15 for short questions with no appointment necessary. For longer inquiries, book an appointment through the automated system on the website.

## Homework

There will be a homework assessment for every lecture, due in the lecture, posted on the website 5-7 days in advance. Each assignment will require around 80-100 minutes of work.

## Tests and Exams

There will be three tests: fall test, winter test, spring test. At the end of the course there will be the final exam. All tests and exams are *cumulative* and *required*. No makeup tests will be offered. If someone has uncontested medical documentation for missing a test, the entire weight of the test will be transferred to the next test. Notice, however, that tests in IE become naturally harder as the year progresses. If someone has medical documentation for missing the final exam, the retake for this exam will serve as a makeup exam.

## Assessment

The *course score* will be calculated as

$$Score = 0.15 \cdot hw + 0.15 \cdot test_{fall} + 0.15 \cdot test_{wint} + 0.15 \cdot test_{spr} + 0.4 \cdot exam.$$

Bonus credit may be issued depending on various factors including a (possible) optional extra credit project. Course score will be in the 100-scale and will be converted into *grades* according to the official UoL mapping:

[0,20): 1; [20,30): 2; [30,40): 3; [40,47): 4; [47,54): 5; [54,62): 6; [62,70): 7; [70,78): 8; [78,86): 9; [86,∞): 10.

If  $Score < 40$ , the student will be offered a retake final exam. The score after the retake will be

$$Score' = 0.5 \cdot Score + 0.5 \cdot Retake.$$

If  $Score' \geq 40$ , the student passes the course with a grade of exactly 4 out of 10. Otherwise the student must take the *commission exam*. The **commission exam** is stipulated by the official ICEF rules. It is an exam on the material of the entire course that will be graded independently by the instructor and two other academics. The commission exam tasks will be created by the instructor as well as the answer key and the grading scheme. Each paper's score out of 100 will be agreed upon in a commission meeting and only the final outcome will be announced. Students who pass the course through the commission exam will receive a grade of exactly 4 out of 10. Failure in the commission leads to irrevocable fail in the course. There is no viewing for the commission and the results are not contestable.

## What to Expect in this Course

- IE requires a reasonable amount of *work*. It needs consistent studying, effort in understanding its logic, practice and patience. Students who only read the homework solutions and previous tests fail IE.
- IE needs *attendance* more than any other course. Students who cannot attend the lectures are not good candidates for taking this course.
- The *teaching approach* in IE is different than in other courses. This course will force you think out-of-the-box. If you cannot tolerate stepping outside your comfort zone, you may not like this course.
- *Assessment* is unlike other subjects. Tasks require more analytical thinking and less solving ability. The hardest part of every task will be to understand the task per-se. Once you comprehend the question, the solution will be simple.

## Professional Behavior

Students who will take this course will be held to the same strict professional standards expected from future world-class leaders. Participants of the lectures and labs are required to exhibit flawless professional behavior. Chatting, making noise, texting, reading irrelevant material or disrespectful behavior will be dealt with immediately by the instructor.

## Harassment

Bullying or cyber-bullying of any kind or form, against a student or a member of the course personnel, including inflammatory comments on someone's *race, sexual orientation, gender, ideology, religious beliefs, disability* and *age* must be reported immediately to the lecturer. Confidentiality will be kept and offenders will be terminated from the course and turned in to the authorities immediately.

## Academic Integrity

Cheating or plagiarism will be prosecuted to the fullest extent of the Code of Student Conduct of HSE and ICEF. The course utilizes the honor pledge. Failure to sign the honor pledge in any test, exam or assignment before its submission will result to a zero grade.

## Students with Disabilities

Your success as a student is of utmost importance to me. If you have a disability or any other special circumstance which may have some impact on your work in this course, and for which you may require special accommodations, please contact me early in the semester so that accommodations can be made in a timely manner.

## List of lectures

Module I	1. The firm	Module III	15. Market segmentation
	2. Investment, technology & concentration		16. Self-selection pricing
	3. Contracts		17. Advanced pricing
	4. Performance evaluation		18. Supply chains
	5. Strategic interaction		19. Dealing & territorial control
	6. Short-run competition		20. Market structure
	7. The Bertrand paradox		21. Industrial policy
Module II	8. Repeated interaction & price wars	Module IV	22. Antitrust
	9. Collusion & detection		23. Natural monopolies & regulation
	10. Strategic entry deterrence		24. Regulation under asymmetric info
	11. Business strategies		25. Networks
	12. Non-price competition		26. Platforms & e-markets
	13. Proliferation, rebranding & quality		27. Two sided markets & technological standards
	14. Price discrimination		28. Intellectual property

*\*Check the website for lecture dates and readings*

## Selected case studies and economic stories

1. General Motors vs. Fischer: Double hold-up
2. BMW vs. Mercedes: Product choice game
3. The JEC cartel
4. How to burn \$50M (and get \$100M in return!)
5. The Web-browsers war
6. Betamax vs. VHS: The battle of tech standards
7. The “bring back the McRib” case
8. The New Coke story: A rebranding tragedy
9. Are nightclubs truly “clubs”?
10. The genius two-part pricing of Polaroid
11. Motorola RazR-D&G case: Please, take my money!
12. The Levi Strauss jeans case
13. Coke vs. Pepsi: The refrigerators loophole
14. Rolex – Tabasco: Image or Quality?
15. The Weider Fitness (idiotic) attempt for collusion
16. Saudis vs. Americans: Predation in the oil market
17. HSE – NES: Collusion or not?
18. Taylor Swift against the music establishment
19. Apple vs. Microsoft: The killer apps case
20. Nintendo NES: The game-changing console
21. The dynamic online pricing practice
22. “Sweet” pricing by Merci
23. How Viagra changed the pharmaceutical industry forever
24. The Indian village story
25. iPhone vs. Galaxy: The 3.5mm headphone jack case
26. The infamous UEFA Euro 2004 “fix-up”
27. How to lose 2.5B dollars in 3 years and your investors will still trust you
28. A cheater’s real dilemma
29. Tinder vs. Bumble: Market failure and mechanism competition
30. The YouTube case