

Economics 122: Spring 2007
Professor Joseph Farrell
Handout 1.0, as of January 16.

This is a class for *undergraduates highly interested in industrial organization*. We will pursue a limited set of topics in much more detail than 121 or 123 are able to do.

My educational goals in this class are primarily:

1. To give you a taste of high-level real economics in the policy-oriented (but with academic standards of rigor) area;
2. To build your research, writing, and presentation skills;
3. To get to know your intellectual strengths and weaknesses much better than is possible in a larger class, so that you can potentially have at least one well-informed letter of recommendation.

Obviously this only works if *you participate very actively*, and that is the main class requirement. Participation involves doing research outside class, contributing actively and (mostly) positively to in-class discussion, and taking responsibility for appropriate components of class deliverables (see below) and following through. If you're looking to sit still during class, read a bit outside class, do OK on a final, and get some credit, this probably isn't it.

Since the main input for this class is your enthusiasm and hard work, you had better have significant input into the topics for the class, so that the topics are ones that you find stimulating. Accordingly, I have *chosen* the first topic (so that we can at least get going; it's broadband "net neutrality") but have only suggestions after that: we'll set up a mechanism for you (collectively) to choose, subject to my approval to make sure that (a) the topics are "industrial organization" and (b) we have a reasonable prospect of jointly making progress.

BROADBAND NET NEUTRALITY

In the first class (Jan. 18) I will set the stage by describing what this is about and the conflicting world-views or theories behind the two sides. I'll point you to some resources. I'll explain what I think is the fundamental intellectual framework within which to analyze the problem, and point you to an article of mine that explains it again. I will send you away with (negotiated/agreed) areas of responsibility to research.

In our second class (Jan. 25), each researcher or team will report back on what you've learned. We will try to put this all together into either a consensus view or (in some ways better) a respectable and respectful agreement-to-disagree. I don't know whether that will take roughly 3 hours, roughly 6, or some other period, though I won't let it drag on all semester.

Class deliverable: Next month the FTC is holding hearings on this topic (or on a topic that includes this one). I'd like you to write a joint report to submit to the FTC. This involves getting to a pretty high standard of research. FTC staff have already been investigating this, and listening to the experts, so think about how to make your report helpful.

As noted above, after that, it's (within reason) your call. Here are a few suggestions—these are things that I may be able to help with a bit more than some others, but that's not a good reason to choose them if other things seem more stimulating to you. After all, I don't intend (after the first week) to do most of the talking.

CREDIT CARD INTERCHANGE

Australian, European and UK competition authorities have argued that there are competitive problems with VISA's and Mastercard's systems of "interchange", under which a store's bank pays a fee to your bank when you buy something using your card. In the US, there is some private litigation, though the government competition authorities have not plunged in. What's this all about? It's a small percent of a gigantic number, so it's pretty important. It's also complex. I believe there's a real problem, but it takes more than a few minutes to explain. Intrigued?

PATENT POLICY

You've probably read about some of the stupid patents out there. Is this a cute man-bites-dog story, or a big problem? The FTC and National Academies of Science, among others, seem to think the latter. Why? What's happened in recent Supreme Court patent cases, and why?

AIRLINE COMPETITION

Airline deregulation occurred in the mid-1980s, quite likely before you were born, but the old "legacy carriers" are still a big share of the market even though they have much higher costs than the newer entrants. How does that work? And how is it that sometimes legacy carriers actually drive an entrant out of the market—and courts find that they didn't price below cost to do it!

AFTERMARKETS

Kodak had to pay tens of millions of dollars, after losing a Supreme Court antitrust case, when it froze out "independent service organizations" who wanted to service its high-volume photocopiers. Yet other firms pursue seemingly similar strategies even now, putting big markups on service, spare parts, or other follow-on purchases while trying to stop "independent" aftermarket rivals. Should a firm be able to do that?