

Econ 476: Industrial Organization

Introduction

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Lecture 01

Welcome to ...



<https://youtu.be/PPoYzyOn44M>

- ▶ Industry: a distinct group of productive or profit-making enterprises (Merriam-Webster)
 - ▶ Banking industry, tourism industry, steel industry ...
- ▶ What is Industrial Organization?
 - ▶ Industrial Organization (IO) studies *imperfect* competitive markets.
 - ▶ How firms interact/compete when there \exists some degree of market power
 - ▶ The role of Government

- ▶ Nobel laureate George Stigler

"There is no such subject as industrial organization."

- ▶ As noted by Luis Cabral, a better title of the field of IO would be "economics of imperfect competition."
 - ▶ focus on how *firms* strategically compete

- ▶ How do firms interact/compete?
 - ▶ advertising
 - ▶ R&D
 - ▶ location
 - ▶ product differentiation
 - ▶ service
 - ▶ quality
 - ▶ etc ...

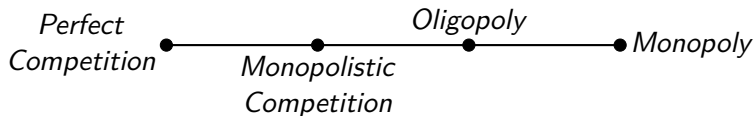
Example

- ▶ The first drug to treat ulcers, Tagamet, came to the market in the late 70's (patent expired in 1997).
- ▶ Zantac, Pepcid, and Axid came out in the 80's.
- ▶ Who won? Zantac
- ▶ Why?

Example

- ▶ ADVERTISING!
- ▶ Interestingly, advertising and R&D budgets are on the same order of magnitude for large pharmaceutical companies
 - ▶ just *rational* behavior!

Spectrum



- ▶ Sherman Antitrust Act (1890)

Section 2:

"Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony [. . .]"

Antitrust

- ▶ Would Jurassic Park have been a monopoly?
- ▶ If so, would Jurassic Park have been in violation of the Sherman Antitrust Act?