Description of the Course

The objective of this course is to introduce you to the role of government in altering market outcomes when either competitive forces are weak or competitive equilibrium fails. It draws from areas such as welfare economics, public economics, and industrial organization. The focus is on monopolies, especially natural monopolies and potentially monopolised markets, where market mechanisms are unlikely to produce outcomes that benefit consumers more than the alternatives involving costly government intervention. The two main areas examined are competition policy and economic regulation. Competition policy refers to laws that define certain market behavior as illegal because it is harmful to competition or fails to provide consumer benefits that justify its costs to consumers. Economic regulation refers to policies in which government controls prices and/or decides the terms and conditions under which firms can participate in a market. A growing area of study and policy design is the introduction of market mechanisms into formerly regulated industries such as: telecommunications, electricity, airlines, railroads, postal delivery services and environmental regulation.

The course is roughly organized as follows. First few lectures will be devoted to competition policy issues, which introduce the economic mechanisms that cause the market failures used to justify economic regulation. Private vs. Private enterprises. The course will then turn to the study of economic regulation and the introduction of market mechanisms into regulated industries. In this part the focus will be on optimal regulation under various a/symmetrical informational situations prevailing between regulator and regulated firm/s. Regulation of innovation and patenting. Lastly, certain case studies will be taken up – regulation of energy market (e.g. electricity, crude oil, natural gas), railways privatisation.

Texts for the course: (in order of importance)

These texts would be supplemented by other readings (especially papers) will be posted time to time in the course website.

Grading & Exams: There will be one midterm examination AND one term paper and presentation (max 2 in a group) depending upon the class size]. You should start looking for a topic (list below) for the term paper at the very onset (which should be done in consultation with me) on a prominent competition policy, an important regulatory policy, or industry re-structuring issue. Students should identify their paper topic with a one-page written proposal due February 15, 2016. Final papers will be due at the towards end of lectures. Please refer to chapters 16, 17 and 18 of VVH and last 4 four
chapters of Sherman in this regard. The midterm will be given in class and is scheduled for End of Feb. The final exam is scheduled during the regular examination period. All the exams would be closed book. There would be NO MAKE-UP test in any circumstances. Presentations of the term papers may happen towards the end of semester. Grading will be based on the examinations and term paper presentation as follows:

One Midterm: 15%
Term paper cum Presentation: 15%
End term Exam: 70%

Course Outline:

   i. Read: VVH Chapters 1, 2 and 4.
   i. Read: VVH Chapter 10, JOS (pp. 34-53)
3. Theories of regulation: normative and positive analysis, interest groups theory
   i. (VVH) Chap 4
4. Public Enterprise. The origins of public ownership as a way to regulate economic activity. Public vs Private ownership. Does the threat of nationalization/municipalization discipline private firms?
   i. VVH Chapter 14.
   iii. Vickers and Yarrow (1988)
5. Regulating Natural Monopolies:
      i. VVH Chapter 11, 12; JOS (pp. 76-93; 96-119)
      iv. AS-05: Section 2A, 2B (pp 4-8): Recent Experience with Liberalization;
      v. AS-03: Section 3.2.4 Choice of ‘X’ in Price Cap Regulation (pp. 59-60); Sections 3.4 (pages. 63-67); Section 4.1 (pages. 71-75)
      vi. Alexander, I and T. Irwin (1996)- Price Caps, Rate of Return Regulation and the Cost of Capital, World Bank, Note 87
   (b) Sustainability of natural monopolies and contestability
      i. (VVH) Chap 11, JOS (pp.7-31)
   i. Read: *VVH, Chapters 10 and 11, JOS (pp.120-153)
ii. Baron-Myerson (1992)
iii. Baron-Besenko
vi. * AS-05: Section 3: Regulated Monopoly and Unregulated Competition (pp. 8 -15)
vii. AS-03: Upto 2.2.2 (pp. 1-24) & Section: 2.4 (pp. 35-40)
7. Franchise Bidding: The Case of Cable Television. Using franchise bidding as an alternative to regulation in the case of a natural monopoly.
i. * VVH Chapter 13.; JOS (65-70)
ii. AS-05: pp 24-29 Or, AS-03: Section 4.2 (pp. 76-80)
8. Regulation of Innovation & Patents.
i. Read: VVH chapter 24.

CASE STUDIES

9. Dynamic Issues in Natural Monopoly Regulation: Telecommunication Example. What should a regulator do when an industry transforms over time due to exogenous changes that can either (1) change the optimal price or (2) change the industry from a natural monopoly into “something else”? 
i. Read: VVH Chapter 15.
i. Read: VVH Chapter 18.
i. Read: VVH, chapter 19.

Term Paper Topics

1. Regulation of Energy Market
   a. Regulating Petroleum Product Prices
   b. Rent Control and Natural Gas Field Prices
   c. Electricity Market (Production Cost, Price, Subsidy) Regulation
2. Regulation of Transport
   a. Urban Public Transport (taxi, Trucking)
   b. Competition Airline regulation (Price Controls, Route Award, Supporting State owned Airline, Occupancy)
3. Regulation of Telecom
4. Regulation of Pharmaceuticals
5. Regulating Urban Piped Water Market

Or any other topic that is relevant to the course.