

# Industrial Organization

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August 8, 2018 – August 14, 2018

## Lecturer

*Karl Storchmann.*

*Karl Storchmann is Clinical Professor of Economics at New York University (NYU). He is an applied micro-economist. Among other topics, his research focused on price, markets, and organizational structure of the wine industry, climate change and transportation economics. He also is the founder and managing editor of the Journal of Wine Economics ([www.wine-economics.org](http://www.wine-economics.org)).*

## Course objectives

Learning about theoretical microeconomic concepts and their practical applications in specific markets. Being able to read and interpret empirical research. Summarizing research papers and (or starting your own research project) and presenting this in class.

## Course content

Industrial Organization covers four topics: (A) Basic Market Structure, (B) Government Policies, (C) Firm Strategies and (D) Information. This class focuses on various applications, primarily with respect to climate change, regulation, product variety, asymmetric information and expert opinion. We will examine several markets such as (but not limited to) beer, wine, and firearms.

**Prerequisites:** Microeconomics

## Instructional methods

Lecture with class discussion

## Reading list

- 1            **Microeconomic Foundation**
  - Production (Readings: Production)
  - Costs (Readings: Lecture Notes Cost)
  - Profit Maximization (Readings: Profit Maximization and Competition)
  - Monopoly, Monopsony, Market Power (Readings: Monopoly and Monopsony)
  
- 2            **Basic Market Structure**
  - Market Structure and Market Power - Examples from the Beer Industry (Readings: Concentration in the Beer and Wine Industry)
  - Advertising (Readings: Advertising)
  
- 3            **Monopoly Power and Practice**

- Price Discrimination (1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> Degree)  
(Readings: Price Discrimination and Second Degree Price Discrimination)
- 4      **Product Variety, Quality and Bundling**
  - Horizontal Product Differentiation (Readings: Lecture Notes: Horizontal Differentiation)
  - Vertical Product Differentiation (Readings: Lecture Notes: Vertical Differentiation)
  - Bundling (Readings: Lecture Notes Bundling)
- 5      **Basics of Regression Analysis**  
Basics of Regression Analysis (Readings: “Basics of Regression Analysis”)
- 6      **Climate Change and Markets**  
Ashenfelter, O. (2008), Predicting the quality and price of fine wine. *The Economic Journal*, 118(529), F174-184 (reprinted in *Journal of Wine Economics*, 2010, 5(1))  
  
Haeger, J. and Storchmann, K. (2006), Prices of American pinot noir wines: climate, craftsmanship, critics. *Agricultural Economics*, 35, 67-78.
- 7      **Market Regulations**  
  
Deconinck, K. and Swinnen, J. (2013). The economics of planting rights in wine production. American Association of Wine Economics, Working Paper No. 130.  
[http://www.wine-economics.org/aawe/wp-content/uploads/2013/01/AAWE\\_WP130](http://www.wine-economics.org/aawe/wp-content/uploads/2013/01/AAWE_WP130)  
  
Expected Regulatory Changes and Gun Sales in the U.S.  
[http://www.huffingtonpost.com/2012/12/14/gun-sales-2012\\_n\\_2303513.html](http://www.huffingtonpost.com/2012/12/14/gun-sales-2012_n_2303513.html)
- 8      **Non-Profits and Market Distortions**  
Hobby Vintners and Market Distortion (Readings: “Love or Money?”)
- 9      **Asymmetric Information**
  - Experience Goods, the Lemons Problem and Market Signaling  
(Readings: “Lecture Notes Asymmetric Information, Lemons and Signals”)
  - Bordeaux wine vintages (Readings: “Ashenfelter: Predicting the Quality of Bordeaux Wine”, see above)
  - Signaling Applications in Marketing and Economics (Readings: “Schnabel and Storchmann: Prices as Quality Signals”)
- 10     **Experience Goods and Experts**
  - Wine descriptors (Readings: “Quandt, On Wine Bullshit” - “Weil: Wine Words” - “Z-scores”)

- Wine Awards (Readings: Wall Street Journal, Leonard Mlodinov: A Hint of Hype, Taste of Illusion")

<http://online.wsj.com/article/SB10001424052748703683804574533840282653628.1>

- Expert Opinion: Biases and Fraud (two movie clips)

Car Repairs, Jiffy Lube Scam:

<http://www.youtube.com/watch?v=wiCAJ8ULnaI&NR=1>

Better Business Bureau: <http://www.youtube.com/watch?v=Y08kfV9kONw>

- Problems with Credit Rating Agencies

[http://www.nytimes.com/2011/11/30/business/ratings-firms-misread-signs-of-greek-woes.html?\\_r=1&hp=&adxnnl=1&adxnnlx=1323738220-4Cx1eWtO+qnGbZ+3o6D4](http://www.nytimes.com/2011/11/30/business/ratings-firms-misread-signs-of-greek-woes.html?_r=1&hp=&adxnnl=1&adxnnlx=1323738220-4Cx1eWtO+qnGbZ+3o6D4)

- Experts and Price Distortion (posted readings)

## **Time schedule**

6 hours of teaching per day (an hour lasts 45 minutes).

### *Daily schedule:*

Morning: Lecture from 08.30 to 12.00

Lunch break: 12.00-13.00.

Afternoon: Lecture from 13.30 to 16:00.

## **Assessment**

In addition to attending class lectures, each student should write a summary of one or two academic paper(s) (approx. 3-4 pages) and present this in class. There will also be a final exam. Active class participation accounts for 40%, the research paper and its presentation for 20% and the final exam for 40% of the final grade.