Welcome to ECON 481!

ECON 481: Government Regulation of Economic Activity

Lecture 1 – Administration

- Instructor: Ziyi Qiu, Email: ziyiqiu@illinois.edu, Office: 30
- Class website: see compass2g
- TA/Grader: TBD
- Office hours: After class or by appointment
- Textbook recommended: Carlton, D. and J. Perloff, Modern Industrial Organization 4th Edition.
- Textbook recommended: Jeffery Church and Roger Ware, Industrial Organization: A Strategic Approach.

Lecture 1 Motivation

This course is an economic topic course. How is it different from other econ classes?

- Open ended course design;
- More research based and student interactive;
- Focus on improving your practical analysis skills with models, literatures and real data.

Lecture 1 – Grade Distribution

Homework due at the beginning of class (25%)

- Homework 1 due on Sep 19th, 2018
- Homework 2 due on Oct 17th, 2018
- Homework 3 due on Nov 14th, 2018

Lecture 1 – Grade Distribution

Midterms (30%)

- Midterm 1 on Sep 26th, 2018
- Midterm 2 on TBD

Lecture 1 – Grade Distribution

Final Exam (35%)

The date of final exam will be scheduled by the department.

Lecture 1 – Grade Distribution

Student Presentation (10%)

The date of student presentation will be scheduled during the second half of the semester.

Lecture 1 – Course Design

In this class, you will

1 learn classic firms' competition models;

2 learn frontier popular antitrust analysis tools;

3 learn the U.S. Antitrust laws and the current Horizontal Merger Guidelines.

4 conduct your own antitrust analysis by applying the tools/models we learned in class, performing literature reviews from academic papers and newspapers.

Lecture 1 – Class Schedule

Topic 1 Competition Behavior of Firms

- Introduction
- Cournot
- Stackelberg
- Cartels and Collusion
- Tying and Bundling Sales

Firms' Competition Behavior

Topic 2 Antitrust Laws and Analysis

- Discrete Choice Model
- Linear Model
- U.S. Antitrust Laws
- 2010 Horizontal Merger Guidelines
- Student Case Work

Lecture 1 Motivation

This course is about U.S. government intervention in economics matters.

What are the main reasons for government intervention?

- To correct for market failure;
- To achieve a more equitable distribution of income and wealth;
- To improve the performance of the economy.

Lecture 1 Motivation

What are the ways government intervene economic activities?

- Government Legislation and Regulation => The focus of this class;
- Direct State Provision of Goods and Services;
- Fiscal Policy such as taxes and subsidies.

Lecture 1 Motivation

This course talks about how government intervene firms competition behavior through government regulations – antitrust laws.

This course shall focus on

1 understanding firms competition behavior;

2 understand U.S. antitrust laws and up to frontier analysis tools;

3 conduct antitrust analysis to real life antitrust cases.

Lecture 1 Motivation

What is antitrust laws?

Antitrust law is essentially a series of highly interpretable and ever-changing guidelines meant to encourage stable competition between businesses; in essence they are laws to protect against anti-competitive monopolists and conspiracies.

U.S. antitrust law is essentially competition law.

The two principle antitrust offences are

- Monopolisation;
- Conspiracy to restrain trade.

Lecture 1 Motivation

Case Overview: In 2006, Whirlpool proposed to the Department of Justice the acquisition of Maytag in a merger of home appliance makers. At that time, Whirlpool has the largest market share in home appliance market and Maytag has the second largest market share.

Q1. If you are the department of Justice, will you say yes to the merger of Whirlpool and Maytag and why?

Q2. If you are an antitrust economist, what will your prediction of the merger to the home appliance market in general, and to the prices, market shares, product qualities of the merged two firms and the rest?

Q3. Overall, do you think this merger will benefit or harm the consumers and why?

Q4. In order to conduct the antitrust analysis, what are the data you will need?

Lecture 1 Motivation

Overall, what you can take away from this course

- Understand firms' different competition behavior
- Learn about U.S. Antitrust law and current merger guidelines
- Conduct antitrust analysis particularly in Mergers and Acquisitions
- Practice with real antitrust cases by writing expert reports and perform student presentation.
- Good for future job opportunities –Economic Consulting