

Advanced Industrial Organization (Empirical)

Objective: The goal of this course is to prepare students to understand current research in empirical industrial organization and prepare them to do their own research in the field.

Although the course starts from the basics of demand estimation, students who took the course of Empirical Industrial Organization at CentER/UvT will find that the NAKE course is somewhat complementary to that course in that it focuses much more on the possible applications.

Methodology: To achieve the above objective, we will discuss in depth some key papers in the empirical IO literature. The first few classes will focus on econometric models of demand, the others on applications of these models to issues such as predicting merger effects, measuring the value of new goods, assessing the effects of trade liberalization or establishing the relative importance of viewers and advertisers tastes in shaping TV programs. Whereas the first meetings will take a lecture format, the remaining ones will have a seminar format in order to foster discussion on the models

Prerequisites: Students are assumed to have a basic knowledge of the material covered in the first year MPhil microeconomic and econometric courses.

Grading:

(1) Students will be expected to read (not study!) all required readings (marked either READ or STUDY) before each class and participate in the discussion during the class. (10%)

(2) Presentation of one of the papers in the reading list below (under "Applications") during the corresponding class (45%);

(3) One referee report on a paper chosen from a list of recent job market papers in empirical IO; as an alternative those who prefer and know how to program can be assessed also on the replication of one of the papers in the literature for which the authors have made the data public (45%);

Note that to be successful in (2) and (3) it is necessary to STUDY the readings marked STUDY in addition to STUDYing the paper one is presenting, refereeing or replicating (although in the list the latter is marked as READ for all the others)

More advanced students (e.g. those who took the course of Empirical Industrial Organization at CentER/UvT) can be exempted from attendance to the two lectures in which the basic models will be explained; in such a case participation in the discussion in class will be assessed only based on the remaining classes.

Course Outline and Schedule:

(note that the schedule will need to be updated once it is known how many people take the course and the topics of the last classes will be specified once students have chosen the papers to present)

Class 1

0. Organization of the course

1. (Static) Demand Estimation with Differentiated Products: A.I.D.S.

-Deaton, Angus, 1986, "Demand analysis", Handbook of Econometrics, Volume 3, pages 1767-1839 (READ)

-Deaton, Angus S & Muellbauer, John, 1980. "An Almost Ideal Demand System," American Economic Review, American Economic Association, vol. 70(3), pages 312-26 (STUDY)

2. (Static) Demand Estimation with Differentiated Products: Logit and Nested Logit

-Berry, Steve. 1994. "Estimating Discrete-Choice Models of Product Differentiation," Rand Journal of Economics 25(2), 242-262. (STUDY)

Class 2:

3. (Static) Demand Estimation with Differentiated Products: Mixed Logit

-Berry, Steve, Levinsohn, James, and Ariel Pakes. 1995. "Automobile Prices in Market Equilibrium," Econometrica 63(July): 841-890 (STUDY)

-Nevo A. 2000. "A Practitioner's guide to Estimation of Random Coefficients Logit Models of Demand", Journal of Economics & Management Strategy 9(4): 513-548. (STUDY)

-Berry, Steven, Levinsohn, James, and Ariel Pakes (2004), "Differentiated Products Demand Systems from a Combination of Micro and Macro Data: The New Car Market", Journal of Political Economy, 112, pp. 68-105.(STUDY)

-Dube, Jean-Pierre H., Fox, Jeremy T. and Su, Che-Lin, 2009. "Improving the Numerical Performance of BLP Static and Dynamic Discrete Choice Random Coefficients Demand Estimation". Chicago Booth School of Business Research Paper No. 09-07 (READ)

Class 3:

4. Discussion on New Empirical IO

- Reiss, Peter and Wolak, Frank. 2004. "Structural Econometric Modelling: Rationales and Examples from IO," Handbook of Econometrics, Volume 6, Pages 4277-4415 (READ CHAPTERS 1-7, PARTS ON DEMAND ESTIMATION)

- Akerberg, D., Benkard, L., Berry, S., and Pakes, 2004. A. "Econometric Tools for Analyzing Market Outcomes", Handbook of Econometrics, Volume 6, 4171-4276 (READ CHAPTER 1)

- Pakes, Ariel. 2003. "Common Sense and Simplicity in Empirical Industrial Organization", Review of Industrial Organization, 23, 193-215 (READ PARAGRAPHS 1-2, 4)

5. Introduction to Estimation of Dynamic Demand Models

- J.-P. Dube, K. Sudhir, A. Ching, G. Crawford, M. Draganska, J. Fox, W. Hartmann, G. Hitsch, B. Viard, M. Villas-Boas, and N. Vilcassim "Recent Advances in Structural Econometric Modeling: Dynamic, Product Positioning, and Entry," , Marketing Letters, 16(3-4), 2005, 209-224

- Akerberg, D., Benkard, L., Berry, S., and Pakes, 2004. A. "Econometric Tools for Analyzing Market Outcomes", Handbook of Econometrics, Volume 6, 4171-4276 (READ CHAPTER 3)

Classes 4 and 5:

Topics and papers to be chosen from:

Liberalization and trade-policy

-Brenkers Randy & Verboven Frank, 2006. Liberalizing A Distribution System: The European Car Market, Journal of the European Economic Association, vol. 4(1), pages 216-251 . *

Mergers

-Ivaldi Marc & Verboven Frank, 2005. Quantifying the Effects from Horizontal Mergers in European Competition Policy, International Journal of Industrial Organization, 23 (9-10), 669-691 and 693-698. .

-Nevo, Aviv. 2000, Mergers with Differentiated Products: the case of ready-to-eat cereal industry, Rand Journal of Economics, 31(3), 395-421. .

Market Power

-Nevo, Aviv. 2001, Measuring Market Power in the Ready-to-Eat Cereal Industry, Econometrica, 69(2), 307-342 .

-Slade Margaret, 2004, Market Power and Joint Dominance in UK Brewing, Journal of Industrial Economics, Vol. 52 (1), pp. 133-163. (note: also distance metric)

Two-Sided Markets

-Rysman Marc, 2004, Competition between Networks: A Study of the Market for Yellow Pages," Review of Economic Studies, 483-512.

-Argentesi Elena, and Lapo Filistrucchi. 2007, Estimating Market Power in a Two-Sided Market: the Case of Newspapers, Journal of Applied Econometrics, vol. 22(7), 1247-1266 . *

Advertising

-Goeree Michelle Sovinsky, (2008), "Limited Information and Advertising in the US Personal Computer Industry", Econometrica, vol. 76(5), 1017-1074. .

Market Definition

-Brenkers Randy and Verboven Frank, (2006). "Market Definition with Differentiated Products -- Lessons from the Car Market," in Jay Pil Choi (ed.), *Recent Developments in Antitrust: Theory and Evidence*, MIT Press.*

Two-sided markets and Advertising

-Wilbur Kenneth (2008). A Two-Sided Empirical Model of Television Advertising and Viewing Markets. Marketing Science, Vol. 27, 356-378.

Pass through

-Bettendorf Leon & Verboven Frank (2000), "Incomplete transmission of coffee bean prices: evidence from the Netherlands," European Review of Agricultural Economics, 27(1), 1-16.*

Tax Evasion

-Salvo-Farre, Alberto (2009), "Cut-throat Fringe Competition in an Emerging Country Market: Tax Evasion or the Absence of Market Power?" , Journal of Industrial Economics, 57(4), pp. 677-711, 2009*

New Goods

-Amil Petrin, 2002. Quantifying the Benefits of New Products: The Case of the Minivan, *Journal of Political Economy*, 110:705-729.*

-Austan Goolsbee and Amil Petrin, 2004. The Consumer Gains from Direct Broadcast Satellites and the Competition with Cable TV, *Econometrica*, Vol. 72, No. 2, pp.351-381. (note: probit, individual data)

-Gentzkow, Matthew (2007), "Valuing New Goods in a Model with Complementarities: Online Newspapers", *American Economic Review*, 97(3), pp. 713 - 744. (note: new model, individual data)

Trade Policy

-Goldberg, Pinelopi Koujianou, 1995. Product Differentiation and Oligopoly in International Markets: The Case of the U.S. Automobile Industry, *Econometrica*, vol. 63(4), pages 891-951. (note: nested logit, individual data)

Other (well-) published articles based on structural demand estimation can also be presented subject to agreement with the lecturer.