

ST. JOHN'S UNIVERSITY
NEW YORK

PETER J. TOBIN COLLEGE OF BUSINESS

Department of Economics and Finance
Undergraduate Division

SYLLABUS

Development of American Business Enterprise

Economics ECO2327 - CRN70529

Fall 2012 Semester, Class hours 1:50- 3:15, Tuesdays and Fridays, SJH 112

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Instructor Office Hours: 3:30-5:30 Fridays, Bent Hall Room 139, or, by appointment

DEPARTMENT:

Economics and Finance

COURSE NAME:

Development of American Business Enterprise

COURSE NUMBER:

Economics 2327

COURSE DESCRIPTION:

This course analyzes the industrial organization of the American economy with an emphasis on the diverse forms of market structure and their evolution, degrees of competition, the behavior of companies and industries, and public policy issues in the promotion of competition. Applied microeconomic theory and public policy alternatives, including antitrust regulation, are studied to provide an economic basis for managerial decision-making. Where appropriate, an international perspective will be presented. Alternative economic models and theories including economic dynamics, rent-seeking and public choice economics are also introduced. Case studies include classics of antitrust policy as applied to American business in a historical perspective. Students will also be given the opportunity to present case studies on antitrust policy, either of a historic or contemporary nature.

CREDIT:

3 credits

PREREQUISITES:

Economics 1302

LEARNING OBJECTIVES OF THE COURSE:

The main purpose of the course is to provide a theoretical and factual overview of actual market behavior of firms and the development of business organizations. Microeconomic theory will be used whenever possible to explain the development process. Against the background of this primary objective, the course has the following supporting goals:

1. The course aims to familiarize the student with the historical background and development American Business Enterprise. Using applied microeconomic theory, it will delineate the main components of the U.S. industrial structure, including the current and future global issues facing multinational firms.
2. The course will (a) examine the theoretical rationale for modern antitrust legislation, (b) trace the historical development of that legislation, and (c) evaluate and discuss the economic consequences of industrial regulation and antitrust legislation both domestically and internationally.
3. The course will survey the main empirical facts of business life by reviewing appropriate industry and company studies. It will review selected literature on topics with specific relevance to managerial decision-making including business concentration, motivation, competitiveness, pricing behavior, and technological innovation.
4. The course will allow students to form groups of their own selection in order to work together to research and present case studies on relevant contemporary or historical industrial organization topics to facilitate student understanding of the analytical issues behind industrial policy as it exists today.
5. Grading will be based on verbal class discussion, homework essay, written examination and group research and presentation, this allows for multiple means for students to show their familiarity with the course material.

REQUIRED TEXTS:

TITLE: Antitrust and Monopoly: Anatomy of a Policy Failure, 2nd Edition (1990)

AUTHOR: Dominick T. Armentano

PUBLISHER: Oakland, CA: The Independent Institute

This text is especially strong on historical case studies in antitrust policy in the USA and is key text on historical development of American enterprise relating to Law and Economics. The theoretical work here is used throughout the class.

Students should stay current on topical events relating to industrial organization and antitrust actions in the US and international economies by reading the *Economist* magazine, the *New York Times*, the *Wall Street Journal* and/or the *Financial Times*. (The *NY Times* is available for free on campus.)

In addition there are several papers relating to the theory of the firm, rent-seeking and differing, alternative theories of monopoly, competition and regulation which will be used in the class, all of these papers are available through the Instructor's website, cameroneconomics.com, "teaching" link. These papers are required reading for the class.

Armentano, D.T (1978). "A Critique of Neoclassical and Austrian Monopoly Theory", in Louis M. Spadaro, ed.

Coase, Ronald (1937). "The Nature of the Firm", *Economica* 4.

Friedman, Milton (1962). "Monopoly and the Social Responsibility of Business and Labor", from Friedman 1962.

Kreuger, Anne (1974). "The Political Economy of the Rent-Seeking Society", *American Economic Review* 64.

Weber, Cameron (2012). "Absentee Ownership in America" (monograph available from Instructor's website).

RECOMMENDED TEXTS:

TITLE: Introduction to Industrial Organization (2000)

AUTHOR: Luis M. B. Cabral

PUBLISHER: Cambridge, MA: MIT Press (Available on reserve at the main library.)

This text is used throughout the class and is mostly ‘theoretical’, although the textbook does contain some historical examples, industry empirical studies and case studies which will be drawn upon. All testable material from this text will be presented in class lectures and discussion, however, it is also recommended that the student read the chapters from this book as listed below under course topics in order to participate in class discussion and in order to better understand the lectures and discussions.

OPTIONAL TEXTS:

TITLE: Industrial Organization: Theory and Applications (1995)

AUTHOR: Oz Shy

PUBLISHER: Cambridge, MA: MIT Press.

This is a more advanced economics textbook which will be of interest to economics majors. Some of the class lectures (and exam questions) will be based on this text, which is also especially strong on public policy, however all exam-related material from this optional text will be covered in class.

WEB SITES

Federal Trade Commission, ftc.gov

YOUTUBE AND OTHER VIDEOS

Cato Institute conference on antitrust policy: <http://www.cato.org/event.php?eventid=6214>

Hayek and Bork on “intellectuals”: <http://www.youtube.com/watch?v=km0-La2gGt4>

Robert Higgs on Regime Uncertainty:
<http://www.youtube.com/watch?v=f73izHRGIIA>

Milton Friedman on “greed”: <http://www.youtube.com/watch?v=alP0WiL2P0g>

GRADING PROTOCOL

The class grade is based on the following:

Class attendance and participation: 15%

You are required to attend all classes, attendance will be taken at the beginning of each class. If you leave the class after signing-in, this counts as an absence. If you are absent for 4 classes, you might be automatically dropped from the class unless you contact the Professor or unless you are making an "A" average. You are expected to contribute to class discussion, this is part of the grade for this section of the grading protocol. In order to get an "A" for this section you must participate in class discussion. In addition starting October 2012 students will have the option to present a contemporary news-item to the class at the beginning of each class period. The news-items will add to the participation grade, however each news item should be presented in context as it relates to topics covered in the class as found below in the topics section.

If you cannot make a class it is expected that you will notify the instructor by email in advance. If an emergency arises and you miss a class it is expected that you will notify the instructor by email as soon as possible after the fact. All emails from the class will be responded to during office hours, or, more often if possible.

Homework and Extra-Credit: 15%

There will be one homework assignment, due September 28, printed in hardcopy for class on that day. The homework assignment is posted to the instructor's website, you have the option of choosing from one of three questions to write-upon for the HMW.

If you are satisfied with the initial homework grade, you are not required to resubmit it for a better grade. If you want to resubmit the homework for a better grade (for extra-credit up to the full 15 points), it is required that you also submit the original assignment which includes the instructor's comments. You can submit a revised essay along with the original essay anytime before December 7, 2012.

Class presentation: 15%

In the last three class periods (11/30, 12/4 & 7), before the review for the final exam (12/11) and the final exam (12/14), groups will present a case study of a classic historical or a contemporary case in American antitrust policy. The instructor will provide specific cases in which to choose from, or, groups may propose a case study of their own interest. Groups are able to form of their own (group size will depend on the size of the class, probably between 3 and 5 students per group) and to choose as a group their research topic. Alternatively those who do not form a group on their own (or topics for their groups) will be assigned a group (and/or topic) by the instructor. Self-selected groups will be formed and case studies chosen by 10/26, those without groups or groups without topics will be assigned by the instructor on 10/30/12. It is anticipated that each group presentation will be 15 minutes long, with a group-lead 5 minute discussion period after each presentation.

Quiz 15%

There will be one in-class Quiz on 11/16, the last 45 minutes of class. Students will be expected to draw a Supply and Demand graph relating to the class topics. Potential topics for the quiz will be presented by the instructor the class period prior to the quiz.

Midterm and Final Exams: 40%

The midterm exam (25 true/false and multiple choice questions) to be held 10/12 will count as 15% the course grade, and the final exam (40 true/false and multiple choice questions) to be held on 12/14 will count as 25% of the grade. All potential exam questions will be covered in class so students are encouraged to ask questions during class if they do not understand a topic as it is presented in class, these questions also add to your class participation grade (there is no such thing as an irrelevant question). There will be a review for the final exam on 12/11, and we will review the final exam answers in class on 12/18, the last day of class.

Class Rules:

There will be no cellphone or txt use during class. Computers (and smartphones etc.) are acceptable if they are used to do research in order to participate in class discussion. There will be no prolonged “side discussions” tolerated during class as they distract from the learning of others. Anyone who persists in disrupting the class will be asked to leave the classroom. There will be no make-up exams, homework assignments, or class presentations. Also there are no “extra-credit” opportunities except for the ability to revise your homework for a better grade. If emergencies arise, it is expected that you will meet with the instructor during office hours or by appointment to work-out a realignment of the grading protocol, including providing verifiable documentation for emergency-based missed deadlines. There will be no realignment of the grading protocol for any student unless it is due to an unforeseen emergency or if the student arranges a realignment of the grading protocol with the instructor ahead of time, such as religious holiday or planned medical treatment, etc.

TOPICS AND ASSIGNMENTS:

It is anticipated that the following will be the week-by-week course schedule, though some topics may take longer and some briefer than expected, however, exams and due-dates will not be changed. Students should read the references for each topic prior to attending the class where that topic will be discussed. We will review each exam, quiz and homework in class after each is due.

Weeks 1 through 4: Introduction to the study, and economic foundations, of Industrial Organization.

Timeline of Development of American Business Enterprise (available instructor's website)

What is Industrial Organization? (Lecture and Cabral Ch. 1)

Review of relevant welfare economics (Lecture and any Intro to Micro textbook)

- a. Consumer and producer surplus
- b. Deadweight loss due to government intervention
- c. Rent-seeking and transfer of surplus to special interests (Krueger 1974)
- d. Coase (1937) on theory and development of the firm
- e. Neoclassical theory of imperfect competition and monopoly power
 - i. Monopoly v. Perfect Competition model
 - ii. Historical contingencies and market definitions
 - iii. Price-taker v. price-maker (at marginal cost) & elasticity of demand < 1 (Armentano, Intro, Ch. 1&2)
- f. 'Experts' decide v. "consumer sovereignty" (Hayek and Bork Youtube)
- g. "Pro-competitive" and "anti-competitive" firm behavior (Armentano)

Film: *There Will be Blood*

Weeks 5 and 6: The Firm

Firms, Profits and Economics (Lecture and Cabral Ch. 3)

- a. Agency theory and Firm incentives/constraints
 - i. Ownership, ii. labor market, iii. product market, and, iv. capital market discipline
- b. Milton Friedman "on Greed" Youtube
- c. Vertical and horizontal firm integration (market v. firm resource distribution.)
- d. Tax, efficiency and rent-seeking incentives for firm size (Coase 1937, Friedman 1962, Krueger 1974)
- e. Social Responsibility and the Firm (Friedman 1962)
- f. Do firms maximize profits? Profit variance and firm size (Cabral Ch. 3)
- g. Class discussion on Corporate Social Responsibility

Week 7: Natural Monopolies and Regulation

- a. Definition of Natural Monopoly (Cabral Ch. 5)
 - i. "cost", ii. "price-cap", iii. "rate-of-return", and iv. "average cost pricing" regulation
- b. Essential Facilities, and pricing at marginal cost (MC)
- c. Privatization of natural monopolies (NY MTA example from Lecture)

Week 8 and 9: Market Structure, Market Power, Mergers, Monopoly and Antitrust Law

Structure-Conduct-Performance paradigm (Cabral Ch. 9, Shy Ch. 8)
 i. collusion hypothesis, ii. efficiency hypothesis
 Types of Mergers and Acquisitions (Lecture, Cabral Ch. 15, Shy Ch. 8)
 i. conglomerate, ii. horizontal, iii. vertical
 Evaluation Criteria for Mergers (Cabral Ch. 15, Shy Ch. 8)
 i. scope of market, ii. effect on concentration, iii. ease of entry, iv. ease of collusion,
 v. efficiency gains associated w/ merger
 Film: *The Formula*

Week 10 and 11: Entry and Exit and Strategic Behavior

Barriers to entry (Cabral Chpts. 14 & 15; Shy Ch. 8, Sec. 8.7)
 i. Historical (cost, learning curve) advantages, ii. reputation and goodwill
 iii. customer loyalty, iv. lack of entrepreneurial (risky) financing
 Sherman Act (1890) Regulation
 Section 1. Collusion among firms (price too high)
 Section 2. Predation by single firm (price too low)
 Cato Institute antitrust conference video
 Strategic Behavior preventing entry in monopolistic markets (Cabral Ch.15)
 i. Capacity expansion, ii. product proliferation, iii. long-term contracts,
 iv. price reduction (predatory pricing)
 Chicago School critique of predatory pricing (Cabral Ch. 15)

Week 12 and 13: Contemporary Problems with American Enterprise System

Income Tax Code and “absentee ownership in America” (Weber 2012 monograph)
 Regime Uncertainty (Robert Higgs youtube video)
 Great Recession: Monetary and housing policy in USA (Lecture)
 Corporatism, Film: *Atlas Shrugged*

Week 14 and 15: Student Presentations and Review for Final Exam

Week 16: Final Exam

SUMMARY OF CLASS SCHEDULE:

Class Participation:	15% of grade
Homework (and optional extra-credit):	15%
Midterm Exam:	15%
Quiz:	15%
Group Presentation:	15%
Final Exam:	<u>25%</u>
	100%

Class Dates

Aug. 27, 2012:	First day of class
Sept. 4:	Last day to Add/Drop without notification on transcript
Sept. 28:	HMW due
Oct. 12:	Midterm Examination
Oct. 16:	No class (Fall Break)
Oct. 18:	Mid-term grades due, all undergrads
Oct. 26:	Due date for self-selected groups and topics for Group Presentation
Oct. 30:	Instructor assigns groups/topics not self-selected
Nov. 2:	Last day to withdraw from class
Nov. 16:	Quiz last 45 minutes of class
Nov. 23:	No class (Thanksgiving)
Nov. 27 – Dec. 4:	Group Presentations
Dec. 7:	Revised HMW due (if seeking extra-credit) and Review for Final Exam
Dec. 11:	No class (Reading Day)
Dec. 14:	Final Examination
Dec. 18:	Review of Final Exam in class
Dec. 21:	Final grades due

REFERENCES

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