



**Wednesday 7.15 pm to 9.15 pm**

**Room Erignac (Bat. J)**

**UP: 16988**

**Enseignement réservé aux  
étudiants du Master Recherche  
en Relations Internationales  
spécialité Economie**

## **1. Contacts**

Classes will be taught by two lecturers:

**Cyrille Schwellnus: [cyrille.schwellnus@cepii.fr](mailto:cyrille.schwellnus@cepii.fr)**

**Jens Arnold: [jens.arnold@oecd.org](mailto:jens.arnold@oecd.org)**

## **2. Objectives of the course**

The objective of this course is to enable students to think about complex market situations in the framework of economic models, and to apply the modeling tools presented in this course to the analysis of imperfectly competitive markets.

The course will outline the basic microeconomic principles governing public interventions in a market economy. We will discuss the perfect competition benchmark, and point out different classes of departures from the competitive equilibrium case. We will then evaluate different ways to address such situations with regulatory measures. The main focus will be on the microeconomic foundations for regulatory action. Further issues addressed in the course are the political economy of regulatory action, the outcomes of different approaches to regulation in complex real world situations and robust policy rules derived both from microeconomic theory and real world experiences. Short case studies will be used to show the real-world difficulties in designing regulatory measures, drawing on recent examples in both industrial and developing countries. Finally, we will also discuss a number of international issues related to regulation, in particular questions regarding restrictions on foreign participation in regulated industries.

## **3. Methods**

The course will cover a substantial amount of applied economic theory, but should be fairly self-contained even for those with limited prior knowledge of microeconomics. We will practice and review the material covered by means of homework assignments. In addition, weekly readings will be assigned, including both chapters of the main text book and articles in academic journals.

## **4. Assessment**

Students are expected to participate actively in class, and apply their understanding of theory to the situations discussed in class. Class participation will account for 1/6<sup>th</sup> of the final grade. Homework assignments, to be done in small groups, will account for another 1/6<sup>th</sup>, with the rest of the grade coming from the final exam.

## 5. Course plan

- Topic 1. Why regulate? The competitive equilibrium benchmark, and departures from perfect competition. Classes of market failures, the case for public intervention as a remedy on normative grounds.
- Topic 2. The Positive Theory of Regulation. What objectives do regulators pursue? Models of political economy and regulatory capture. Market failure vs. government failure.
- Topic 3. The Economics of Natural Monopoly: Basic cost theory.
- Topic 4. Regulation of Natural Monopoly by active intervention: rate of return vs. price cap regulation, discretion over pricing structures, regulation of quality.
- Topic 5. Yardstick competition and franchise auctions as an alternative to active intervention.
- Topic 6. Public Enterprise. The state as a provider of goods and services, incentive structures, managerial models.
- Topic 7. Dynamic Issues in Natural Monopoly Regulation. Differing degrees of competition across market segments. Interdependencies between segments. An application to the telecommunications sector, and case studies of developing countries: Argentina, Chile, Zambia.
- Topic 8. The international dimension of regulation: Externalities from foreign presence, regulation of international trade in services.
- Topic 9. Imperfect Information and Banking Regulation.

## 6. General References (material may be added to this list later)

### *Main Textbook*

Viscusi, W. K., J. E. Harrison and J. M. Vernon (2005), *Economic of Regulation and Antitrust*, 4th edition, MIT Press.

### *Complementary Readings*

- Armstrong, M. and D. Sappington (2006). Regulation, Competition and Liberalization, *Journal of Economic Literature* 44(2): 325-366.
- Armstrong, M. and D. Sappington (2005). Recent Developments in the Theory of Regulation, forthcoming in the Handbook of Industrial Organization (Vol. III), edited by M. Armstrong and R. Porter. Available online at <http://else.econ.ucl.ac.uk/papers/uploaded/176.pdf>
- Arnold, J. , Javorcik, B. and A. Mattoo (2006). Does Services Liberalization Benefit Manufacturing Firms? Evidence from the Czech Republic. Forthcoming as CEPR Working Paper.
- Barth, J. R., G. Caprio Jr. and R. Levine (2005), *Rethinking Bank Regulation - Till Angels Govern*, Cambridge University Press.
- Grout, P. and M. Stevens (2003). The Assessment: Financing and Managing Public Services. *Oxford Review of Economic Policy* 19: 215-234.
- Laffont, J.-J. and J. Tirole (1993), *A Theory of Incentives in Procurement and Regulation*, MIT Press.
- Laffont, J.-J. and J. Tirole (2000), *Competition in Telecommunications*, MIT Press.
- Noll, R. G. (1989), 'Economic perspectives on the politics of regulation,' in R. Schmalensee & R. D. Willig (eds.), *Handbook of Industrial Organization*, Volume 2, Amsterdam: North-Holland, Ch. 22, 1253-1287.
- Tirole, J. (1988), *Industrial Organization*, MIT Press.

## 7. Detailed Reading List

Will be distributed during the first session of the course.