The Economics of Industrial Organization

Fifth Edition

William G. Shepherd
University of Massachusetts

Joanna M. Shepherd
Emory University
Contents

Preface x

Part 1: Basic Concepts 1

1 Basic Concepts and Debates 3
   I. Concepts and Trends 6
   II. Real-world Markets and Trends 10
   III. Competition's Nature and Paradoxes 16
   IV. The Field Evolves 18
   V. The Sequence of Topics 26

2 Theories of Competition and Monopoly 31
   I. Performance Values 31
   II. Competition and Performance 36
   III. Effects of Monopoly Power 39
Appendix: Topics, Methods, and Sources
   for Student Research Papers 51
Part 2: Market Structure 59

3 Market Definition, Market Imperfections, and Degrees of Competition 61
   I. Defining the Market 62
   II. Market Imperfections 68
   III. The Elements of Market Structure 70
   IV. Degrees and Concepts of Partial Competition 75
   V. Degrees of Competition in Real Markets 83

Part 3: Performance 91

4 Market Power's Effects on Prices, Profits, and Efficiency 93
   I. Effects on Prices and Profits 93
   II. Effects on Efficiency 96

5 Innovation, Fairness, and Other Values 109
   I. Innovation 109
   II. Empirical Analysis of R & D and Innovation 116
   III. Fairness 120
   IV. Competition Itself: Benefits and Costs 123
   V. Other Values 126

Part 4: Determinants of Market Structure 133

6 Capital Markets, Mergers, and Other Influences on Structure 135
   I. Capital Markets 135
   II. Mergers 139
   III. Other Determinants of Structure 145

7 Economies and Diseconomies of Scale 151
   I. Historical Shifts in Technology Trends 152
   II. Basic Concepts 154
   III. Plant-Level Economies and Diseconomies 157
   IV. Multiplant Economies and Diseconomies 160
   V. Methods of Research 161
   VI. Empirical Findings 162
PART 5: BEHAVIOR AND RELATED TOPICS 169

8 The Firm: Concepts and Conditions 171
   I. Concepts of the Firm 171
   II. Motivation 177
   III. Real Firms 181

9 Monopoly, Dominance, and Entry 185
   I. Leading Cases and Trends of Dominance 186
   II. Sources and Sustaining Factors of Monopoly and Dominance 187
   III. Models of Dominant Firms 188
   IV. Concepts of Entry and Limit Pricing 190
   V. Firms’ Choices in Light of Potential Entry (Contestability) 196

10 Price Discrimination and Predatory Actions 205
   I. The Nature of Price Discrimination 206
   II. Price Discrimination’s Effects 210
   III. “Predatory” Actions, Including Pricing 215
   IV. Cases of Price Discrimination 219

11 Tight Oligopoly: Theories and Real-world Patterns 225
   I. Conflicting Incentives: Cooperation Versus Cheating 226
   II. Basic Theories of Interdependence 227
   III. Game Theory: Models of Noncollusive Duopoly 228
   IV. Tacit Collusion and Price Leadership 241
   V. Conditions Favoring or Discouraging Collusion 243
   VI. Collusion in Real Markets 244
   VII. Types of Collusion 244

12 Vertical Conditions, Size and Diversification, and Advertising 253
   I. Monopsony and Bilateral Monopoly 253
   II. Vertical Integration 255
   III. Vertical Market Power and Restrictions 257
   IV. The Effects of Bigness 260
   V. Diversification 261
   VI. Product Differentiation, Especially Advertising 263
PART 6: INDUSTRY CASE STUDIES 271

13 Case Studies of Dominant Firms: Microsoft, Newspapers, Baby Bells, Computers, Beer, Electricity, and Others 273
   I. Microsoft 274
   II. Newspapers in Local Markets 275
   III. Local Telephone-Service Markets (The Baby Bells) 278
   IV. Mainframe Computers (IBM) 281
   V. Beer (Anheuser-Busch) 283
   VI. Electricity 286
   VII. Capsule Studies 289

14 Case Studies of Tight Oligopolies: Passenger Aircraft, Airlines, Sports, Ready-to-Eat Cereals, and Trash Removal 295
   I. Passenger Aircraft (Boeing and Airbus) 295
   II. Airlines 298
   III. Sports 302
   IV. Breakfast Cereals 307
   V. Trash Removal 310

PART 7: PUBLIC POLICIES TOWARD MONOPOLY 317

15 Antitrust Policies: Standards and Methods 319
   I. Origins and Standards of U.S. Antitrust and Regulation Policies 320
   II. U.S. Antitrust Policies: Forms and Coverage 330
   III. Antitrust in Other Countries 340

16 Antitrust Applied toward Dominance, Mergers, and Conduct 345
   I. Toward Existing Dominance: Section 2 Cases 345
   II. Toward Mergers 360
   III. Toward Price Fixing and Other Actions 364
   IV. Policy Imbalance? 368

17 Regulation, Deregulation, Public Enterprise, and Privatization 375
   I. Regulation of Natural Monopoly 376
   II. Partial Deregulation and Price Caps 387
   III. Full Deregulation 388
   IV. Public Enterprise 391
   V. The Privatization of Public Firms 393

18 Further Study 403

   Name Index 405
   Subject Index 413