Preface
Acknowledgements

Part I: Theoretical Foundations

1 Industrial organization: an introduction

1.1 Introduction 3
1.2 Static and dynamic views of competition 4
1.3 The structure-conduct-performance paradigm 6
1.4 Strategic management: a short diversion 25

Discussion questions 28
Further reading 29

2 Production, costs, demand and profit maximization 30

2.1 Introduction 31
2.2 Production and costs 31
2.3 Demand, revenue, elasticity and profit maximization 48
2.4 Summary 59

Discussion questions 60
Further reading 60

3 The neoclassical theory of the firm 61

3.1 Introduction 61
3.2 The neoclassical theory of the firm: historical development 62
3.3 Theories of perfect competition and monopoly 64
3.4 Efficiency and welfare properties of perfect competition and monopoly 70
3.5 Theory of monopolistic competition 76
3.6 Summary 79

Discussion questions 80

4 Managerial and behavioural theories of the firm 81
4.1 Introduction 81
4.2 Critique of the neoclassical theory of the firm 82
4.3 Separation of ownership from control: managerial theories of the firm 85
4.4 The behavioural theory of the firm 97
4.5 Summary 99

Discussion questions 100
Further reading 100

5 Transaction costs, agency and resource-based theories of the firm 101
5.1 Introduction 101
5.2 The Coasian firm 102
5.3 Transaction costs and the theory of the firm 105
5.4 Agency theory 110
5.5 Property rights and the theory of the firm 113
5.6 The resource-based theory of the firm 114
5.7 Summary 118

Discussion questions 119
Further reading 120

6. Corporate governance 121
6.1 Introduction 121
6.2 Agency problems and the need for corporate governance 123
6.3 Instruments of corporate governance 126
6.4 Corporate governance codes of practice 130
6.5 Corporate governance: implementation and empirical evidence 133
6.6 Business ethics 139
6.7 Corporate social responsibility 144
6.8 Summary 153

Discussion questions 156
Further reading 156
Part II: Structural Analysis of Industry

7 Oligopoly: non-collusive models

7.1 Introduction 160
7.2 Interdependence, conjectural variation, independent action and collusion 161
7.3 Models of output determination in duopoly 162
7.4 Models of price determination in duopoly 174
7.5 The kinked demand curve and models of price leadership 179
7.6 Game theory 184
7.7 Summary 200

Discussion questions 201
Further reading 202

8 Oligopoly: collusive models 203

8.1 Introduction 203
8.2 Collusive action and collusive forms 204
8.3 Collusive institutions 207
8.4 Profit-maximizing models of price and output determination for a cartel 211
8.5 Other motives for collusion 214
8.6 Factors conducive to cartel formation 217
8.7 Influences on cartel stability 222
8.8 Summary 232

Discussion questions 233
Further reading 233

9 Concentration: measurement and trends 234

9.1 Introduction 234
9.2 Market and industry definition 235
9.3 Official schemes for industry classification 238
9.4 Measures of seller concentration 241
9.5 Interpretation of concentration measures 259
9.6 Summary 260

Discussion questions 261
Further reading 262

10 Determinants of seller concentration 263

10.1 Introduction 264
10.2 Seller concentration: systematic determinants 264
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.3</td>
<td>The random growth hypothesis</td>
<td>272</td>
</tr>
<tr>
<td>10.4</td>
<td>Trends in concentration and the location of industry</td>
<td>281</td>
</tr>
<tr>
<td>10.5</td>
<td>Summary</td>
<td>297</td>
</tr>
</tbody>
</table>

Discussion questions | 298  
Further reading | 299  

11  Barriers to entry | 300  
| 11.1 | Introduction | 300  |
| 11.2 | Types of barrier to entry | 302  |
| 11.3 | Entry-deterring strategies | 315  |
| 11.4 | Signalling commitment | 322  |
| 11.5 | Potential entry and contestability | 324  |
| 11.6 | Entry and industry evolution | 327  |
| 11.7 | Empirical evidence on entry | 329  |
| 11.8 | Summary | 332  |

Discussion questions | 334  
Further reading | 335  

12  Market structure, firm strategy and performance | 336  
| 12.1 | Introduction | 336  |
| 12.2 | Empirical tests of the SCP paradigm | 337  |
| 12.3 | Strategic groups | 343  |
| 12.4 | Sources of variation in profitability: industry, corporate and business unit effects | 344  |
| 12.5 | The new empirical industrial organization (NEIO) | 348  |
| 12.6 | The persistence of profit | 355  |
| 12.7 | Summary | 360  |

Discussion questions | 362  
Further reading | 363  

13  Pricing | 367  
| 13.1 | Introduction | 367  |
| 13.2 | Cost plus pricing | 368  |
| 13.3 | Price discrimination | 373  |
| 13.4 | Peak-load pricing | 390  |
| 13.5 | Transfer pricing | 393  |
| 13.6 | Price dispersion | 402  |
| 13.7 | Summary | 404  |

Part III: Analysis of Firm Strategy
Part IV: Analysis of Public Policy

23 Competition policy 669
23.1 Introduction 669
23.2 Competition policy: theoretical framework 670
23.3 Elements of competition policy 679
23.4 Implementation of competition policy 681
23.5 Summary 694

Discussion questions 696
Further reading 697

24 Regulation 698
24.1 Introduction 698
24.2 The problem of natural monopoly 700
24.3 Nationalization 701
24.4 Privatization 702
24.5 Forms of regulation 709
24.6 Regulation of UK privatized industries 714
24.7 Regulation of the banking industry 720
24.8 Evaluation of regulation and deregulation 723
24.9 Franchising and competitive tendering 726
24.10 Summary 731

Discussion questions 734
Further reading 735

### Appendices: Analytical Tools

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix 1</td>
<td>Mathematical methods</td>
<td>739</td>
</tr>
<tr>
<td>Appendix 2</td>
<td>Econometric methods</td>
<td>762</td>
</tr>
</tbody>
</table>

Glossary 772
Bibliography 783
Index 822

**Supporting resources**
Visit www.pearsoned.co.uk/lipczynski to find valuable online resources

For instructors
- PowerPoints of book figures and tables for usage during lectures
- Instructor's manual containing answers to book discussion questions

For more information please contact your local Pearson Education sales representative or visit www.pearsoned.co.uk/lipczynski.