IB888: Winter-B 2005

INTERNATIONAL CARTELS IN A GLOBAL MARKET
Professors Margaret C. Levenstein & Valerie Y. Suslow

Tuesdays, 9:00a.m. – 12:00p.m., P2011

CONTACT INFORMATION:
Prof. Margaret Levenstein
Office: D3201
Phone: 615-6352
MaggieL@umich.edu

Prof. Valerie Suslow
Office: D4207
Phone: 763-4510
suslow@umich.edu

COURSE DESCRIPTION:
This course explores collusion among firms, with an emphasis on international cartels. We will begin with the fundamental economics of cartels, drawing upon classic articles from the industrial organization literature. Our focus then turns to empirical research on cartel characteristics, and the determinants of cartel duration and stability. We will survey both cross-section and case study research. The focus will be on both understanding and critiquing the empirical methodologies.

PREREQUISITE:
Graduate microeconomics.

COURSE MATERIALS:
Recommended Texts:

COURSE REQUIREMENTS AND EVALUATION:
Problem Sets (2)..............................................................0% (graded for feedback only)
Proposal for Research Paper .........................................20% (due April 12)
Presentations (2)............................................................30% (15% each)
Final Exam....................................................................50% (date to be announced)
Assignments

Problem Sets: There will be two problem sets. You should work on them individually first, and then get together with others in the class to discuss the questions and compare answers. You must each turn in your own individual write-up. Problem sets will be corrected for feedback, but not graded.

Proposal for Research Paper: Each student will write a 4-5 page proposal of a research project related to the course. There should be three components to your proposal:

1. Statement of the research question and its contribution to the field (either original research or an extension of existing research).
2. Brief review of the relevant literature.
3. Description of the theoretical and/or empirical modeling approach, along with research hypotheses.

Proposal ideas must be approved in advance. We encourage you to set up a meeting with us as soon as possible to discuss your proposal. This assignment will be graded based on originality, feasibility of the proposed research project, and exposition (including spelling and grammar). The proposal must be typed using 12 font, and 1.5 line spacing (this limits you to approximately 1500 words of text).

Presentations: For the first two presentations teams of two students will be assigned to present a paper. (We will alternate the teams for each presentation.) Presentations will be thirty minutes maximum in length, followed by discussion led by the team presenting. For the third presentation, each student will individually present their research proposal as a work-in-progress (twenty minutes presentation, followed by ten minutes for discussion). These research proposal presentations will occur on April 5, with the goal of giving feedback on the research ideas, so that the research proposal can be refined before it is turned in on April 12.

These presentations will be done in the same style as a seminar, where the rest of the class can ask questions at any point (rather than saving questions until the end). This will help you practice the skill of timing the amount of material to present and how to present it, allowing time for questions from the audience. You must turn in either your PowerPoint slides or a typed outline of your presentation before class. Grades will be based on content, organization, and response to questions. The first presentation will not be graded, so that students can become familiar with the format.
TENTATIVE SCHEDULE OF TOPICS WITH READINGS

Session#1 Preliminaries (March 11)

Required Reading
Pindyck & Rubinfeld, “Oligopoly,” pp. 441-456

Student Presentation (not graded)
Scherer & Ross, Chapter 6 (“Conditions Facilitating Oligopolistic Coordination”) and Chapter 7 (“Conditions Limiting Oligopolistic Coordination”)

Further Reading
BDS, “Oligopoly,” pp. 218-228
Shapiro, Carl, “Theories of Oligopoly Behavior,” in Handbook of Industrial Organization, Vol. I, Chapter 6

Session#2 Game Theory Dynamics (March 15)

Required Reading
Tirole, Chapter 6 (“Dynamic Price Competition and Tacit Collusion”)

Further Reading
BDS, Chapter 8 (“The Dynamics of Pricing Rivalry”)

Session#3 Cartel Stability (March 22)

Required Reading

Further Reading

Session#4 Beyond the Triangle: Cartel Organization and Non-price Effects of Cartels (March 29)
Required Reading

Student Presentations

Further Reading
Session#5  Research Proposal Presentations  (April 5)

**Student Presentations**
Presentation of research proposals as work-in-progress

Session#6  Private International Cartels and Developing Countries  (April 12)

**Required Reading**

*To be announced* (selection of papers from conference “Promoting Competition in Developing Economies,” March 3-5, Buenos Aires, Argentina)

**Further Reading**