

PUBP 620 - Regulation of Markets

This course presents an analysis of the principles and purposes of government regulation of business. We will consider both the underlying theory of government regulation designed to address market failures and the ways in which regulation works in practice. The course will cover regulation related to mergers, collusion, natural monopolies, intellectual property, environmental quality, workplace safety and other topics.

Grading

Grades for the class will be based on two exams and one policy brief, weighted as follows:

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| Midterm (March 1, 2017): | 35% |
| Final Exam (take home): | 35% |
| Policy Brief: | 30% |

The exams will all be a combination of essays, short answer questions and numerical or graphing problems designed to evaluate your ability to work with the analytical tools and models presented in class and your ability to think critically about the issues presented in class and in the readings. Both exams will be open notes and open book. The final exam can be taken any day beginning with the first day of the Law School exam period (April 25, 2017).

Readings

The recommended text for the course will be *Economics of Regulation and Antitrust* by Viscusi, Vernon and Harrington. We will be using the fourth edition published in 2005. Note that the Swem Library has an electronic version of the text freely available to William & Mary students. In addition to the required text, you may want to use an intermediate microeconomics textbook as a reference for some of the models covered in class. Any standard intermediate microeconomics text would suffice. I have several spare copies of microeconomics textbooks that you may borrow. Additional readings will be posted on the course website throughout the semester. In each Monday's class I will announce the additional readings for the next week. The book *Antitrust Revolution* by Kwoka and White is suggested reading if you are particularly interested in the antitrust topics but is not required. The book is an excellent source for in depth case studies.

Problem Sets

While there will be no graded problem sets, I may occasionally post problems on Blackboard to help you explore the analytical reasoning and models introduced in class. These problems are designed to help you understand the intuition behind the economic models used in class and to explore the limitations of those models. You are not required to turn in solutions to the problems. Solutions will be discussed in class after you have had an opportunity to work on the problems. Additionally, past exams with solutions from the undergraduate regulation class will be posted on Blackboard to give you more practice with the models (note that these exams differ in format from the exams for the graduate course).

Policy Brief

You will be required to write one policy brief, due by the last day of Arts & Sciences classes (April 28, 2017). This policy brief will cover a specific regulation case of your choosing. Details about the policy brief will be discussed during the second week of classes. Additionally, a handout describing the requirements will be posted to Blackboard.

Honor Code

You are expected to follow the William & Mary Honor Code. If I discover any academic misconduct, I will initiate an Honor Council proceeding and recommend failure of the course. If you have any questions about how the Honor Code relates to this course, feel free to talk to me or refer to the Student Handbook and the William & Mary Honor Council's website.

Outline of Course

What follows is the general outline we will follow for the course. For each topic, the relevant chapters of *Viscusi*, *Vernon and Harrington* are included. In addition to the chapters listed, there will occasionally be supplemental readings posted online highlighting specific case studies relevant to the issues being discussed in class. These readings are also noted in the outline. Study questions for book chapters and additional readings will be posted on the course website to help guide your reading and stimulate class discussion. At the beginning of each lecture I will announce where we are in the outline and what we will cover in the upcoming classes so that you can keep up with the readings and contribute to class discussion.

I. The Motivation for Government Regulation of Business

- *Viscusi, Vernon and Harrington* Chapters 1 and 2
- Review of markets and equilibrium
- Efficient and equitable outcomes
- Regulation in theory and practice
- Basics of Cost-Benefit Analysis
- Case studies: Tobacco and Virginia, the Summers Memo, Organ Donation versus Organ Markets

II. Imperfect Competition and Antitrust Regulation

- *Viscusi, Vernon and Harrington* Chapter 3, 4 and 5
- The spectrum from competitive firms to monopolies
- Collusion and imperfect competition
- Antitrust regulations
- Case studies: American Tobacco Company, Herbert Dow, Microsoft, Christie's and Sotheby's

III. Regulation of Natural Monopoly

- *Viscusi, Vernon and Harrington* Chapters 10, 11, 12 and 13
- Origins of natural monopolies
- Tools of economic regulation
- Controlling price, quantity or entry and exit
- Franchise bidding
- Case studies: Electricity regulation, cable television

IV. Intellectual Property

- *Viscusi, Vernon and Harrington* Chapter 24
- Economics of innovation
- Copyright and patents
- Case studies: Pharmaceutical industry, the RIAA and MPAA, Ansari X-Prize

V. Environmental Regulation

- *Viscusi, Vernon and Harrington* Chapter 21
- Externalities, private and social benefits and costs
- The Coase Theorem
- Environmental regulation in practice
- Case studies: Acid rain program, Exxon Valdez and the BP oil spill, Superfund

VI. Product Safety

- *Viscusi, Vernon and Harrington* Chapters 22
- Defining the safety of products
- Government regulation of manufacturers
- The role of civil suits
- Case studies: Tobacco industry, Ford Pinto, Nader and auto safety

VII. Workplace Safety

- *Viscusi, Vernon and Harrington* Chapter 23
- Health and safety in the workplace
- Compensating differentials and the role of labor markets
- Role of government regulation
- Case studies: Workers' comp and the Progressive Era, OSHA

VIII. Moral Hazard and the Regulation of Risk Taking

- A history of financial markets
- The Great Depression
- Modern financial crises
- Moral hazard and the regulation of healthcare