**The Economics of Regulation**  
**Syllabus**  
**Winter 2019**  
Kathryn Ierulli  

**PPHA 46350**  
**The Economics of Regulation**

This course is based on analysis of characteristic inefficiencies of various market structures, evaluating options for welfare-improving public policy, and learning about the strengths and weaknesses of different policy alternatives. Case studies will be used to illustrate regulatory schemata and to characterize the anticipated (and unanticipated) effects that economic policy initiatives have on markets, firms, and individuals.

The goals of this course are to understand different theories about when and why governments regulate markets, what happens to consumers, producers, and the governmental agency when regulation takes effect, and how these outcomes align with the proposed purpose of the regulation. The economics of regulation is predominately a real-world subject area, but learning models of regulation and testing them against empirical regularities are emphasized.

Part I of the course deals with the interaction of regulatory policies and market activities, and why government involves itself in markets in the first place. The standard explanation is that regulation occurs to correct inefficiencies in markets. Another explanation is capture theory, in which an industry controls the regulatory process to its own benefit. A more general theory includes the formation of interest groups and their motives to influence regulations, and how government chooses between the policies of competing interest groups.

Part II of the course involves modeling inefficient markets, examining case studies that illustrate the types of regulation implemented over time, and the empirical results of those regulatory efforts. We will focus on monopoly, natural monopoly non-cooperative oligopoly, cartels, networked industries, and platform industries.

Part III of the course examines special cases: markets where deregulation has taken effect, regulation of labor markets, safety regulation in product markets, and patents.

**Prerequisites**: Two quarter core microeconomics sequence at Harris, or equivalent.

**Class meetings**: Tuesday and Thursday, 2.00 – 3.20pm

**Office hours**: Kathryn Ierulli: 2:00-3:30pm Thursdays, or by appointment, in 153B.

**Email**: I encourage the use of email and try to respond in a timely fashion. Please put ‘Econ Reg 46350’ in the subject line of any email you send to me so that I may reply efficiently.

**Dates:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>Monday, January 7, 2019</td>
<td>Classes Begin</td>
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<tr>
<td>Friday, January 11th (5:00pm)</td>
<td>Last day students can make changes to course registration in my.UChicago.</td>
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<td><strong>Friday of week 1</strong></td>
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<td>Friday, January 18 (5:00pm)</td>
<td>Add/drop deadline: Last day to change winter course registration. <strong>In week 2 all changes must be made through advisor.</strong> Faculty / Instructor consent required to add classes not previously attended during week 1.</td>
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<td><strong>Friday of week 2</strong></td>
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Exam Dates:
- Midterm Exam – February 14, in class
- Final Exam – at time scheduled by Registrar’s office

If you are graduating, contact me ASAP, as you will need an early final exam.

Grading: 4 Problem Sets worth 20%, Essay 5%, Midterm 25%, Final 40%.

Problem Sets: Problem sets are due at 4.30pm in the slot on my office door on the due date specified. When you turn in a problem set write only your ID number(s) on your work – no names. I request typed problem sets, although some graphs and figures that are hand-drawn may be acceptable. Neat and readable work is a professional expectation, and if your work cannot be read, it cannot be given points.

Regrade policy: If you have a question about your grade, either on problem sets or exams, please make an appointment with me and have a discussion about it. If at the end of the discussion you feel you deserve more credit (or less, though I very rarely see this!) please turn in your paper to me, along with a paragraph explaining your reasoning. The only substantial differences I have ever seen in grades changing were addition errors. However, anything is possible.

Academic integrity: You are expected to abide by the University’s expectations regarding academic integrity. Please review this excerpt from the University’s Student Manual, https://studentmanual.sites.uchicago.edu/Policies#Honesty:

    It is contrary to justice, academic integrity, and to the spirit of intellectual inquiry to submit another’s statements or ideas as one’s own work. To do so is plagiarism or cheating, offenses punishable under the University’s disciplinary system. Because these offenses undercut the distinctive moral and intellectual character of the University, we take them very seriously.

    Proper acknowledgment of another’s ideas, whether by direct quotation or paraphrase, is expected. In particular, if any written or electronic source is consulted and material is used from that source, directly or indirectly, the source should be identified by author, title, and page number, or by website and date accessed. Any doubts about what constitutes “use” should be addressed to the instructor.

These expectations apply to papers, exams, and problem sets as well. Your submitted work represents your commitment that it is your own independent work, and that you have relied on no other individuals or resources, except as explicitly specified in the assignment instructions. If you have specific questions, contact me directly.

With respect to sourcing from digital documents, read this article: http://www.nytimes.com/2010/08/02/education/02cheat.html

Students with time accommodation: Students requesting time accommodation should contact me to make arrangements. Please be prepared to share your documentation from the Dean of Students regarding appropriate accommodations.
In-class protocol: It is in everyone’s interest to have an engaged and participatory class. To that end, I encourage students not to take notes on laptops during class. I will make the slides I use available shortly before class, and if you need to, you may print them and take notes on them. However, an even better technique is to take notes by hand and go over the slides later. There is substantial neurological research that understanding new material is greatly facilitated by actually writing material down. See, e.g.: https://www.npr.org/2016/04/17/474525392/attention-students-put-your-laptops-away
https://www.scientificamerican.com/article/a-learning-secret-don-t-take-notes-with-a-laptop/

Finally, I realize that some students have strong reasons for using laptops in class. If you use one, please sit in the last row. Your screen is a distraction to everyone who sits behind you, and is a negative externality unless you are in the back.

Readings


Supplemental texts:
The Theory of Industrial Organization, Jean Tirole, MIT Press

Articles:

Part I


Theories of Regulation and the Deregulation Movement, Theodore E Keeler, Public Choice, 44, 1984

The Economic Theory of Regulation After a Decade of Deregulation, Sam Peltzman, Brookings Papers on Microeconomic Activity, 1989

**Part II**


Allocative Efficiency vs. X-Inefficiency, Harvey Leibenstein, American Economic Review 56, 1966

Some Economics of Property Rights, Armand A Alchian, Il Politico 30, 1965


