

Market Power & Regulation

Course title – Intitulé du cours	Market Power & Regulation
Level / Semester – Niveau /semestre	M1 –S1
School – Composante	Ecole d'Economie de Toulouse
Teacher – Enseignant responsable	Emmanuelle Auriol
Other teacher(s) – Autre(s) enseignant(s)	
Lecture Hours – Volume Horaire CM	
TA Hours – Volume horaire TD	
TP Hours – Volume horaire TP	15h
Course Language – Langue du cours	English
TA and/or TP Language – Langue des TD et/ou TP	

Teaching staff contacts – Coordonnées de l'équipe pédagogique :

Emmanuelle Auriol, office T.353, meeting by appointment only, preferred mean of interaction email:
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Course Objectives – Objectifs du cours :

The prominent form of government intervention in markets no longer is public ownership of production means. Rather, modern forms of regulation attempt at correcting market failures. The latter are diverse, and so are modes of public intervention. The course aims at provides a primer in the theory of regulation of industries and its applications. The first part (Core Issues) provides the basic theoretical elements of economic regulation of industries. The second part (Recent Evolution) is mainly policy oriented and will focus on the recent evolutions of regulation.

Prerequisites – Pré requis :

Although the course will not use difficult mathematics, some familiarity with basic Industrial Organization and Game Theory will be helpful.

Practical information about the sessions – Modalités pratiques de gestion du cours :

Grading system – Modalités d'évaluation :

There will be an exam and/or students will have to write in group of two a paper on a topics related to those studied in class. They will have to read the literature on the chosen topics and structured it to make an analytical survey.

Bibliography/references – Bibliographie/références :

- Emmanuelle Auriol, Claude Crampe and Antonio Estache “Regulating Public Services: Bridging the Gap between Theory and practice”, 2021 Cambridge University Press.
- Jean-Jacques Laffont and Jean Tirole “A Theory of Incentives in Procurement and Regulation”
- Jean Tirole “Industrial Organization”

Session planning – Planification des séances

Part 1: Core Issues

Lecture 1: "Government intervention in market economies" In this introductory lecture we will review the role of government in market economies. From core (i.e., Regalian) missions to economic interventions we will browse over the different justifications of public intervention. We will spend more time on the topic of market imperfections. We will review in detail the natural monopoly cases, which basically correspond to network industries, and the economic distortions the monopoly power yields. These distortions are at core of the rationale for economic regulation.

Lecture 2: "Basic elements of regulation theory. Part 1: Baron-Myerson (1982)" In this lecture we will cover the first basic model of regulation, namely the model by Baron and Myerson (1982). This basic model focuses on adverse selection issues. We will review the problem of the fiscal burden of financing public services (i.e., opportunity cost of public funds). We will also go through the revelation principle to understand the cost imposed by asymmetric information on public authorities.

Lecture 3: "Basic elements of regulation theory. Part 2: Laffont and Tirole (1986)" In this lecture we will cover the second basic model of regulation, namely the model by Laffont and Tirole (1986). This model introduces moral hazard issues into the regulation framework. Following Laffont and Tirole (1993) and Laffont and Tirole (2000), we will present the conceptual issues of performance-based regulation: the basic trade-off between incentives and rent extraction. Further the students will recall their knowledge on Ramsey pricing to compare with Price Cap rule.

Part 2: Recent Evolution in Regulation

Lecture 4: "Deregulation" Since the mid of the eighties there has been a worldwide wave of deregulation, starting in the UK under the impulsion of Margaret Thatcher, and also in the US with the historical demise of the ATT monopoly. In this lecture we will review the different economic arguments that help to understand why such deregulation reforms occurred on a global scale. We will go through sampling effects and yardstick competition effects. We will also talk about quality problems raised by deregulation.

Lecture 5: "Public Private Partnerships and Outsourcing" In this lecture we will study the optimal frontier between producing a commodity or a service directly under public management, or by

contracting it out to the private sector. The costs and benefits of Public Private Partnerships and of outsourcing will be analysed in the light of the financial crisis that governments are facing today. Since they cannot increase their debts and are not willing to further raise taxes, they need to find new sources of funds to finance investment in infrastructure. Relying on PPPs is often a solution that they favour because it takes out of the public account the burden of new investments.

Distance or in class learning – Enseignement à distance ou en présentiel :

The class is designed to be taught both remotely through zoom or in a class room. I will share my slides on Moodle and I will go through them during the class, either by sharing my screen or by projecting them in the class, depending on the configuration. In both cases I encourage students to ask questions and make comments during the class so that learning is dynamic and interactive. Both configurations are conducive of rich interactions. I ask students to read book chapters or papers ahead of the class in both cases. The class lasts for 1.5 hours. I am always available for questions and happy to interact with students. The assignment for the class will be either an exam in class or to prepare a short paper by team of 2 on one of the topics covered in the class and that will be defined in agreement with me. It implies mastering the concepts covered in class, in addition to reading research papers to make an analytical survey. I am confident that the exceptional circumstances we find ourselves in will not prevent us from doing as much as the previous years, maybe more as we have more time to study.