

**ECON 7050: Advanced Economic Theory**

**Fall 2013**

Instructor: Professor Yongmin Chen  
Office: Econ 112

### **Topic 3      The Principal-Agent Problem**

Readings: Ch. 14

Problem Set 4: 14.B.4, 14.C.3, 14.C.7, 14.C.8.

**Starting the Modeling Exercise:** Develop a simple model to describe and analyze a microeconomic problem. I will discuss the requirements in class.

### **Exam 1.**

### **Topic 4      Theory of the Firm**

Readings:

Coase, R., "The Nature of the Firm," *Economica* (1937), 386-405.

Williamson, O.E., *The Economic Institutions of Capitalism*, 1985, New York: Free Press.

Grossman, S. and O. Hart, "The Costs and Benefits of Ownership", *JPE* (1986), 691-719.

Hart, O., "The Market Mechanism as an Incentive Mechanism", *BELL* (1983), 366-382.

Binmore, K., A. Rubinstein, and A. Wolinsky, "The Nash Bargaining Solution in Economic Modeling." *RAND* (1986).

### **Topic 5      Exclusionary Contracts**

1. Contracts as a Barrier to Entry

2. Naked Exclusion

3. Recent Developments

Readings:

Aghion, Philippe and Patrick Bolton, "Contracts as a Barrier to Entry," *AER*, 77(3), 1987.

Rasmusen, Eric, J. Mark Ramseyer, and John Wiley, "Naked Exclusion," *AER*, 1991.

Additional Readings:

Chen, Yongmin and David Sappington, "Exclusive Contracts, Innovation, and Welfare," *American Economic Journals: Microeconomics*, Vol. 3, 194-220, 2011.

Fumagalli, Chiara and Massimo Motta, "Exclusive Dealing and Entry when Buyers Compete," *AER*, 96(3), 2006.

Greenlee, Patrick, David Reitman, and David Sibley, "An Antitrust Analysis of Bundled

Segal, Ilya and Michael Whinston, "Exclusive Contracts and the Protection of Investments," RAND, 2000.  
Segal, Ilya and Michael Whinston, "Naked Exclusion: Comment," AER, 2000.  
Spier, Kathryn and Michael Whinston, "On the Efficiency of Privately Stipulated Damages for Breach of Contract: Entry Barriers, Reliance and Renegotiation," RAND, 1995.  
Simpson, John and Abraham Wickelgren, "Naked Exclusion, Efficient Breach, and Downstream Competition," AER, 2007.

## **Topic 6      Differential Pricing**

### Readings:

Aguirre, Inaki, Simon Cowan, and John Vickers. 2010. "Monopoly Price Discrimination and Demand Curvature." AER: 1601-15.

Chen, Y. and M. Schwartz. 2103. "Differential Pricing When Costs Differ: A Welfare Analysis". Working paper.

## **Topic 7      Economics of Search**

### 1. Price Search in Homogeneous Product markets

- (1) Salop and Stiglitz's "Bargains and Ripoffs"
- (2) Varian's model of sales
- (2) Diamond's Paradox
- (3) Stahl's model of sequential search

### 2. Product Search in Differentiated Markets and on the Internet

- (1) Wolinsky's model
- (2) Paid Placement: Advertising and Search on the Internet

### Readings:

Diamond, Peter. 1971. "A Model of Price Adjustment." Journal of Economic Theory, 3, 156-168.

Salop, S. and J. Stiglitz, "Bargains and Ripoffs: A Model of Monopolistically Competitive Price Dispersion", RES (1977), pp. 493-510.

Stahl, Dale O. 1989. "Oligopolistic Pricing with Sequential Consumer Search." AER, 700-712.

Varian, Hal. 1980. "A Model of Sales." American Economic Review, 70, 651-659

Wolinsky, A. 1986. "True Monopolistic Competition as a Result of Imperfect Competition," QJE, 101: 493-511.  
Chen, Y. and C. He, 2011. "Paid Placement: Advertising and Search on the Internet," Economic Journal, 121: F309-F328.

Additional Readings:

Armstrong, M. and Y. Chen, "Inattentive Consumers and Product Quality," Journal of the European Economic Association, (2009), pp. 411-422.  
Armstrong, M, Vickers, J, and Zhou, J., "Prominence and Consumer Search", RAND, 2009.  
Athey, S. and G. Ellison, 2011, "Position Auctions with Consumer Search", QJE, 126, 1213-1270.  
Bagwell, K. and G. Ramey, "Coordination Economies, Advertising, and Search Behavior in Retail Markets", AER (1994), 498-517.  
Chen, Y. and T. Zhang, "Equilibrium Price Dispersion with Heterogeneous Searchers," International Journal of Industrial Organization, 2011.  
Reinganum, J., "A simple Model of Equilibrium Price Dispersion", JPE (1979), pp. 851-858.  
Grossman and Shapiro, "Informative Advertising with differentiated products", RES, 1984, 63-81.  
Chen, Y. and R. Rosenthal, "On the Use of Ceiling-price Commitments by Monopolists", RAND (1996), 207-220.  
Baye, Michael and John Morgan. 2001. "Information Gatekeepers on the Internet and the Competitiveness of Homogeneous Product Markets." AER, 91, 454-474.  
Baye, M.R. and J. Morgan. 2004. "Price Dispersion in the Lab and on the Internet:

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