

# ECO 650: Firms' Strategies and Markets

## Course Overview

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# Main objectives

This course aims at equipping students to understand complex strategies that firms apply to maximize their profits. Emphasis is given to pricing, advertising and innovation strategies of firms in a static and/or a dynamic perspectives. The range of strategies analyzed is wide because firms operate in diverse market organizations (various competitive environments, direct sales vs indirect sales to consumers), demand conditions (uncertainty, consumers' heterogeneity) and information setting (imperfect information about prices, contracts or products).

- ▶ The methodology used is Industrial Organization.
- ▶ Each class includes:
  - ▶ Theory  $\sim$  1,5 hours;
  - ▶ Exercises  $\sim$  1 hour;
  - ▶ A case study or article  $\sim$  0,5 hours;
- ▶ My website: [chambolle.io](http://chambolle.io) (heading: Teaching)
- ▶ 1 final exam.

## 7 themes/ 9 class of 3 hours

1. Multiproduct firms' pricing
2. Advertising strategies
3. Entry deterrence and entrants' strategies
4. Dynamic pricing
5. Vertical structures and pricing on intermediate markets
6. Profit sharing and theory of bargaining
7. Innovation and R&D

# Models in IO

- ▶ A model is a stylised world
  - ▶ that aims at showing "some" effects (potentially ambiguous) of a strategy
  - ▶ Other effects of the same strategy could arise in other models
  - ▶ It is not because it is a FOCUS that it lacks of generality.
- ▶ Simple framework
  - ▶ Oligopolistic framework, i.e. small number of firms; Each firm can influence the outcome.
  - ▶ Decision-makers are rational (firms are assumed to be profit-maximizing – no behavioral assumption).
  - ▶ We study firms' strategies in a context with imperfect competition and strategic interactions (Nash equilibrium!)
- ▶ Cases studies: one or another model (several sometimes) is a good illustration.

# List of Case/Articles Studies

1. Bundling <https://cepr.org/voxeu/columns/economics-google-android-case>
2. Advertising <https://cepr.org/voxeu/columns/effects-banning-advertising-junk-food-markets>
3. Entry <https://cepr.org/voxeu/columns/monopoly-and-restricted-entry-lessons-notary-professions>
4. One stop shoppers <https://cepr.org/voxeu/columns/shopping-costs-and-one-stop-shoppers-intensify-competition>
5. Buyer power <https://cepr.org/voxeu/columns/rise-buyer-power-online-advertising>
6. Vertical merger <https://cepr.org/voxeu/columns/how-antitrust-enforcement-can-spur-innovation-bell-labs-and>
7. Innovation <https://www.fondapol.org/app/uploads/2020/06/136-geants-numerique-i-eng-2019-07-11-w-3.pdf>