Introduction

A key determinant of a firm’s profitability is the structure of the market in which it operates. The structure of a market can be described by the number of players, the nature of competition, the characteristics of the products sold in the market, the costs of production and the level and type of research & development. The study of industrial organisation examines the relationship between market structure, the firm’s behaviour and the firm’s profitability. Understanding these relationships is essential for developing strategies to improve individual firm performance within a market. Firms are also influenced by the policy environment in which they operate. We examine how government policies influence key market characteristics, and how policy changes affect market structure and hence firm performance.

Who should study industrial organisation?

Industrial organisation uses an economic framework to analyse the firm’s strategy and government policy. It is therefore an essential subject for anyone who wants to understand the market environment in which they conduct their business. It is complementary to corporate strategy, but it is not a substitute for it. It is strongly advised for anyone who intends to work in a management-consulting role.

Although the economic foundations of the subject are rigorous, the approach taken is not highly mathematical. Students who have completed either of the gateway subjects should have no difficulty with the degree of technical difficulty. Those who enjoy a more technical approach will be able to have their curiosity satisfied through supplementary readings.

What this subject will enable you to do

There are three goals for this subject:
1. To enable managers to understand the influences of market structure on their businesses;
2. To provide a framework for analysing strategic behaviour and appreciate the implications of this behaviour in a broader industry context;
3. To use this understanding to evaluate government policy and formulate appropriate responses to policy changes.

Assessment:

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two in class cases</td>
<td>50%</td>
</tr>
<tr>
<td>Project</td>
<td>50%</td>
</tr>
</tbody>
</table>

The assessment for this subject consists of two case studies with in-class exams and one group project. The project will consist of an analysis of an industry of your choice. (See page 5 for a description of the project.)
Texts:
There is no assigned text for this subject. However, I will rely extensively on the text by Besanko. I would encourage you to purchase Besanko, as it is a good reference as well as the source of several readings. It is a text on strategy as well as economics and, as such, will serve you well in other subjects. The course outline lists readings for each lecture. The starred readings are essential. The other readings are there if you want additional references for a particular topic or another approach to the material.


Additional references
The following list of references contains books or publications that you may find useful for dealing with some of the concepts we cover in the course. There are also several academic publications worth consulting, such as Harvard Business Review, California Management Review, Journal of Law, Economics and Organization, Journal of Industrial Economics, Rand Journal of Economics and so on. I would also encourage you to refer to more popular publications such as Forbes, Fortune, The Economist, Business Review Weekly, Far Eastern Economic Review and Australian Financial Review.

East Asia Analytical Unit, Department of Foreign Affairs and Trade (1994), *ASEAN Free Trade Area: Trading Bloc or Building Bloc*, Australian Government Publishing Service, Canberra.
McMillan, J (1992), *Games, Strategies and Managers*, Oxford University Press. (Also used in Strategic Game Theory for Managers.)

http://www.accc.gov.au/ Website for the ACCC

Also see list of contents of package, p. 4.

<table>
<thead>
<tr>
<th>Lecture</th>
<th>Topic</th>
<th>Reading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>21 Feb</strong></td>
<td>Introduction</td>
<td>Market structure, firm strategy &amp; the policy environment</td>
</tr>
<tr>
<td><strong>24 Feb</strong></td>
<td>A framework for industry analysis</td>
<td>A review/introduction to game theory Some simple models of industry structure</td>
</tr>
<tr>
<td><strong>28 Feb</strong></td>
<td>Concentration</td>
<td></td>
</tr>
<tr>
<td><strong>2 Mar</strong></td>
<td>Economies of scale</td>
<td></td>
</tr>
<tr>
<td><strong>6 Mar</strong></td>
<td>Product differentiation &amp; advertising: An economist's view</td>
<td></td>
</tr>
<tr>
<td><strong>9 Mar</strong></td>
<td>Research &amp; development R&amp;D in pharmaceuticals</td>
<td></td>
</tr>
<tr>
<td><strong>13 Mar</strong></td>
<td>e-commerce &amp; market structure</td>
<td></td>
</tr>
<tr>
<td><strong>16 Mar</strong></td>
<td><strong>In-class exam</strong></td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Topic</td>
<td>Additional Information</td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>20 Mar</td>
<td>Strategic commitment</td>
<td>*Besanko: Ch 8; Carlton: Ch 10</td>
</tr>
<tr>
<td>23 Mar</td>
<td>Price rivalry: the effect of market structure on pricing strategies</td>
<td>*Besanko: Ch 9; Carlton: Ch 12</td>
</tr>
<tr>
<td>27 Mar</td>
<td>Pricing information</td>
<td>*Shapiro &amp; Varian (package)</td>
</tr>
<tr>
<td>30 Mar</td>
<td>Entry &amp; exit</td>
<td>*Besanko: Ch 10, *Shoebridge (package)</td>
</tr>
<tr>
<td>3 Apr</td>
<td>Compatibility &amp; standards</td>
<td>Shy, Ch 10; *Grindley (package); *Yoshida (package); *Grant (package); *Desmond (package)</td>
</tr>
<tr>
<td>6 Apr</td>
<td>Industry analysis</td>
<td>*Besanko: Ch 11; *Brandenburger &amp; Nalebuff (package)</td>
</tr>
<tr>
<td>10 Apr</td>
<td><strong>In-class exam</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The policy environment</td>
<td></td>
</tr>
<tr>
<td>13 Apr</td>
<td>Trade &amp; industry policy: theory &amp; practice</td>
<td>*Freedman &amp; Stonecash (package); Carlton: Ch 19</td>
</tr>
<tr>
<td>17 Apr</td>
<td>Government strategies for the future: current policy</td>
<td>*Mortimer (package); *Goldsworthy (package); *Investing for Growth (package); *Industry commission (package)</td>
</tr>
<tr>
<td>20 Apr</td>
<td>Competition policy</td>
<td>*Hilmer (package); *King (package); *Domberger (package)</td>
</tr>
<tr>
<td>24 Apr</td>
<td>Easter Monday</td>
<td></td>
</tr>
<tr>
<td>27 Apr</td>
<td>Summary &amp; review</td>
<td></td>
</tr>
</tbody>
</table>
Project Description

This is a group project. I will determine the groups. Choose one of the following topics.

1. **Industry analysis**: Choose a specific industry to analyse. Define the market. What characteristics of the products sold within this market make it a market? Describe the structure of this industry. How does this structure affect an individual firm’s profitability? What can/do individual firms do to improve performance, given the structure of the market in which they operate? How does the policy environment affect the industry?

2. **Analysis of strategic behaviour**: Choose an event such as the merger of Caltex and Ampol, BHP’s decision to quit making steel in Newcastle or the joint venture between Optus and Foxtel to provide cable television. Describe why the firm or firms involved chose this course of action. What characteristics of the market influenced their strategic choices? Describe the nature of competition between the parties or within the market prior to the event. Describe the changes to market structure brought about by the event.

I would like a one-page outline of your proposed topic and approach by no later than Monday, 20th March.

**Page limit**: 20 pages, excluding appendices, tables, graphs, etc.

**Project titles from previous years**

- Contestability of the Telecommunications Industry
- Competition in the Cellular Phone Industry
- An Evaluation of the Newspaper Industry in Australia
- The Pharmaceutical Industry in Australia
- Industry Assistance and R&D
- Economic Analysis of Trade Unions
- Ford Motor Co. and the Reduction in Industry Protection
- Anti-Dumping Regulation
- NAFTA and the Effects on the Telecommunications Industry
- The Orbital Engine Corporation
- The Potential of a New Travel Agency
- How to Make AGSM on of the Top 15 Business Schools in the World.
- The NSW Milk Industry
- The Efficiency of the Sugar Industry in Australia
- International Trade in Seaborne Coal
INDUSTRIAL ORGANISATION

MNGT.0201 Package contents ROBIN STONECASH

Part 1


Part 2


