## CONTENTS

	P	REFACE	ΧI
PART ON	E II	NTRODUCTION	1
CHAPTER	1 V	HAT IS INDUSTRIAL ORGANIZATION?	3
	1	1 An Example	4
	1	2 CENTRAL QUESTIONS	6
	1	3 COMING NEXT	11
		SUMMARY	12
		KEY CONCEPTS	13
		REVIEW AND PRACTICE EXERCISE	13
CHAPTER	2 B	ASIC MICROECONOMICS	15
	2.	1 DEMAND	15
	2.	2 Costs	18
	2.	3 Profit Maximization	24
	2.	4 EFFICIENCY	26
		Summary	29
		Key Concepts	29
		REVIEW AND PRACTICE EXERCISES	30
		EXTENSION EXERCISE	33
CHAPTER :	3 Tı	1E FIRM	35
	3.	1 Do Firms Maximize Profits?	35
	3.	2 What Determines the Firm's Boundaries?	40
	3.	3 WHY ARE FIRMS DIFFERENT?	42
		Summary	45
		KEY CONCEPTS	45
		REVIEW AND PRACTICE EXERCISES	45
		Extension Exercises	46

CHAPTER	4 (	AMES AND STRATEGY	49
	4	.1 Dominant Strategies, Dominated Strategies, and Nash Equilibrium	51
	4	.2 SEQUENTIAL GAMES: COMMITMENT AND BACKWARD INDUCTION	55
	4	.3 REPEATED GAMES	59
		SUMMARY	62
		KEY CONCEPTS	63
		REVIEW AND PRACTICE EXERCISES	63
		Extension Exercise	66
PART TW	O F	ROM MONOPOLY TO PERFECT COMPETITION	67
CHAPTER	5 A	ONOPOLY AND REGULATION	69
	5	1 Monopoly	69
	5	2 REGULATION	75
	5	3 ESSENTIAL FACILITIES AND ACCESS PRICING	78
		SUMMARY	82
		Key Concepts	82
		REVIEW AND PRACTICE EXERCISES	83
CHAPTER	6 P	erfect (and Almost Perfect) Competition	85
	6	1 Perfect Competition	85
	6	2 FROM THEORY TO STYLIZED FACTS	87
	6	3 COMPETITIVE SELECTION	89
	6	4 Monopolistic Competition	91
	6	5 COMING NEXT	94
		Summary	96
		Key Concepts	96
		REVIEW AND PRACTICE EXERCISES	96
PART THRE	E O	LIGOPOLY	99
CHAPTER	7 0	LIGOPOLY COMPETITION	101
	7.	1 THE BERTRAND MODEL	102

	7.2 Pricing with Capacity Constraints	104
	7.3 THE COURNOT MODEL	107
	7.4 BERTRAND VERSUS COURNOT	113
	7.5 THE MODELS AT WORK: COMPARATIVE STATICS	114
	Summary	124
	Key Concepts	124
	REVIEW AND PRACTICE EXERCISES	125
	Extension Exercise	126
CHAPTER 8	COLLUSION	127
	8.1 REPEATED INTERACTION AND THE STABILITY OF COLLUSIVE AGREEMENTS	128
	8.2 PRICE WARS	133
	8.3 FACTORS THAT FACILITATE COLLUSION	137
	8.4 Public Policy	144
	Summary	145
	KEY CONCEPTS	145
	REVIEW AND PRACTICE EXERCISES	146
	EXTENSION EXERCISES	150
CHAPTER 9	MARKET STRUCTURE AND MARKET POWER	151
	9.1 CONCENTRATION AND MARKET POWER: THEORY	151
	9.2 CONCENTRATION AND MARKET POWER: EMPIRICAL ESTIMATION	156
	9.3 CONDUCT AND MARKET POWER: EMPIRICAL ESTIMATION	159
	Summary	162
	KEY CONCEPTS	163
	REVIEW AND PRACTICE EXERCISES	163
	Extension Exercises	163
PART FOUR	PRICE AND NONPRICE STRATEGIES	165
CHAPTER 10	Price Discrimination	167
	10.1 Types of Price Discrimination	169

	10.2	? THIRD-DEGREE PRICE DISCRIMINATION	170
	10.3	Nonlinear Pricing	172
	10.4	VERSIONING, BUNDLING, AND OTHER FORMS OF CONSUMER SORTING	175
	10.5	Is Price Discrimination Legal? Should It Be?	180
		Summary	183
		KEY CONCEPTS	184
		REVIEW AND PRACTICE EXERCISES	184
		Extension Exercises	187
CHAPTER 11	VERT	rical Relations	189
	11.1	Double Marginalization and Two-Part Tariffs	190
	11.2	RETAILER COMPETITION	193
	11.3	INVESTMENT EXTERNALITIES	193
	11.4	INDIRECT CONTROL	194
	11.5	Manufacturer Competition	196
	11.6	ARE VERTICAL RESTRAINTS LEGAL? SHOULD THEY BE?	199
		SUMMARY	200
		KEY CONCEPTS	200
		REVIEW AND PRACTICE EXERCISES	201
		EXTENSION EXERCISES	203
CHAPTER 12	PROD	OUCT DIFFERENTIATION	205
	12.1	HORIZONTAL DIFFERENTIATION, VERTICAL DIFFERENTIATION, AND THE CHARACTERISTICS APPROACH	206
	12.2	PRODUCT DIFFERENTIATION AND MARKET POWER	209
	12.3	PRODUCT POSITIONING	215
	12.4	IMPERFECT INFORMATION AND SWITCHING COSTS	217
		SUMMARY	219
		KEY CONCEPTS	220
		REVIEW AND PRACTICE EXERCISES	220
		EXTENSION EXERCISES	221

CHAPTER 13	Advertising	223
	13.1 Information, Persuasion, and Signaling	223
	13.2 Advertising Intensity	227
	13.3 PRICE COMPETITION AND ADVERTISING	231
	SUMMARY	235
	KEY CONCEPTS	235
	REVIEW AND PRACTICE EXERCISES	235
	Extension Exercises	237
PART FIVE	ENTRY AND EXIT	239
CHAPTER 14	ENTRY COSTS, MARKET STRUCTURE, AND WELFARE	241
	14.1 ENTRY COSTS AND MARKET STRUCTURE	243
	14.2 ENDOGENOUS VERSUS EXOGENOUS ENTRY COSTS	247
	14.3 Free Entry and Social Welfare	252
	Summary	256
	Key Concepts	256
	REVIEW AND PRACTICE EXERCISES	256
	Extension Exercises	257
CHAPTER 15	STRATEGIC BEHAVIOR, ENTRY AND EXIT	259
	15.1 Entry Deterrence	260
	15.2 PREDATION	269
	15.3 Mergers and Acquisitions	277
	Summary	285
	Key Concepts	286
	Review and Practice Exercises	286
	Extension Exercises	288
PART SIX	TECHNOLOGY	289
CHAPTER 16	RESEARCH AND DEVELOPMENT	291
	16.1 MARKET STRUCTURE AND INCENTIVES FOR R&D	292
	16.2 THE DYNAMICS OF R&D COMPETITION	295

	16.3	PUBLIC POLICY	303
		Summary	308
		KEY CONCEPTS	308
		REVIEW AND PRACTICE EXERCISES	309
CHAPTER 17	NETV	vorks and Standards	311
	17.1	CONSUMER EXPECTATIONS AND CRITICAL MASS	312
	17.2	PATH DEPENDENCE	314
	17.3	Excess Inertia and Excess Momentum	319
	17.4	COMPATIBILITY	324
	17.5	Public Policy	326
		SUMMARY	328
		KEY CONCEPTS	329
		REVIEW AND PRACTICE EXERCISES	329
		EXTENSION EXERCISES	331
	Note	S	335
	INDE	x	3/17