This course deals with the economics of regulation. It is concerned with how the government can correct market failures, which can be due, among other factors, to entry barriers and externalities. However, as the literature on the new regulatory economics shows, asymmetric information constraints regulators seriously in their interventions. Hence the need for regulators to devise incentive compatible rules and regulations. In many sectors traditional cost and rate of return regulation are gradually replaced by complete or partial deregulation and, where regulation is maintained, by price caps.

The first part of the course focuses on the traditional approaches to regulation, covering topics such as cost-based pricing, second-best pricing, price discrimination, rate of return regulation, externalities, and contestability. In the second part, the more recent analysis related to asymmetric information, opportunism, and incentives is emphasized. Topics covered in this second part include pricing, quality regulation, auctions, the dynamics of regulation, regulatory capture, privatization, and access pricing. The emphasis will be on the theoretical models of regulation and their implications for public policy.

**Manuals**

The two following books will be used extensively:


In addition to journal articles, selected chapters from the following books will also be used:


**Evaluation**

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**Lectures**

**Overview of regulation**

Spulber, Ch.1.

Viscusi, Vernon and Harrington, Ch. 10, pp. 307-22.


Cost-based pricing

Spulber, Ch. 3.


Second-best pricing

Spulber, Ch. 5, pp. 159-70.


**Rate regulation: The Averch-Johnson model**

Spulber, Ch. 10, pp. 267-93.


**Externalities**

Spulber, Ch. 12, pp. 331-45.
Ch. 13, pp. 350-69.


**Introduction to the New Regulatory Economics**


The basic model

Laffont and Tirole 1993, Ch. 1, pp. 53-72, 82-44.


Pricing

Laffont and Tirole 1993, Ch. 2, pp. 129-37, 155-8.
Ch. 3, pp. 165-73, 178-9, 206.


Dynamics without commitment - The Ratchet effect

Laffont and Tirole 1993, Ch. 9, pp. 375-82, 409-11.


Regulatory capture

Laffont and Tirole 1993, Ch. 11, pp. 475-82, 485-87, 500-6.


**Access pricing, Price caps and Telecommunications**


**Contestable markets**


**Dynamics with commitment and renegotiation**

Laffont and Tirole 1993, Ch. 10, pp. 437-47, 458-60.


**The regulation of quality**

Laffont and Tirole 1993, Ch. 4, pp. 211-37.


**Privatization**

Laffont and Tirole 1993, Ch. 17.

Schmalensee, 1979, Ch. 6.


**Auctions and regulation**

Laffont and Tirole 1993, Ch. 7.


**Second-best price discrimination**

Spulber, Ch. 7.
