

Ec 426/526 Economics of Regulation Fall 2009 MW 4:40 pm – 6:30 pm NH 458 Office hours: MW 10:15 am – 11:15 am	Prof. Andre Rossi de Oliveira Office: Cramer 241-R Phone #: 5-3937 aoliveir@pdx.edu
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Course Description

Regulation is the field of economics that studies the reasons for and the form of state intervention in economic activities. In general, the state uses its coercive power to impose a set of constraints on the discretion individuals and organizations have to make economic decisions.

The focus of this course is on economic regulation, which typically relates to restrictions on decisions made by firms regarding prices, quantities, and entry and exit. For instance, in many regulated industries the prices firms are allowed to charge are set by regulatory agencies, which rely on different pricing methods.

In this class, students will first get acquainted with the theoretical accounts of the rationale for regulatory intervention, and then study the most important types of regulatory design. They will also learn the details of regulatory policy in some selected regulated industries, including electricity, telecommunications and transportation. The ultimate goal is to introduce students to some of the most important problems faced by regulators, the tools they have at their disposal to solve them, and the incentives regulated companies face when those tools are used.

Case studies will be used to illustrate some important problems in regulatory practice. They present in an informal and multidisciplinary way the most important facts pertaining to the problem in hand and raise issues to be discussed in class.

Course Outline

I. Theories of Regulation

- Definition of regulation
- Public interest theory
- Capture theory
- Economic theory of regulation

II. Asymmetric information and regulation

- Definition and types of asymmetric information
- Behavior of the regulated firm
 - Quality
 - Allocation of costs
 - Capital expenditures
 - Operation and maintenance
 - Substitution of expenditure
 - Price transfers

III. Monopoly

- Barriers to entry, natural monopoly
- Monopoly pricing
- Welfare effects
- Policy solutions

IV. Types of Regulation

- Rate of return
- Price cap
- Others
- Essential facilities and access pricing

V. Regulation of selected industries

- Electricity
- Telecommunications
- Transportation

Readings

Textbook: Viscusi, W. K., J. E. Harrington, Jr., and J. M. Vernon. **Economics of Regulation and Antitrust**. The MIT Press, 2005.

Students will also be required to read case studies and academic articles to be selected by the instructor.

Exam schedule, homework assignments and grading

Midterm: Oct. 28

Final: Monday, Dec. 7, 5:30 pm to 7:20 pm.

Grades will be based on student performance on exams and presentation of a case study or paper published in the literature. Weights are as follows:

Final Exam 40%
Midterm 30%
Presentation 30%

There will be homework assignments, but they will not be graded.

Affirmative Action

Portland State University supports equal opportunity for all, regardless of age, color, disability, marital status, national origin, race, religion or creed, sex or gender, sexual or gender identity, sexual orientation, veteran status, or any other basis in law.

Disability Resources at PSU

Students with accommodations approved through the Disability Resource Center are responsible for contacting the faculty member prior to, or during, the first week of term to discuss accommodations. Students who believe they are eligible for accommodations but who have not yet obtained approval should contact the DRC immediately.

Attendance and Class Participation

Students are expected to attend all lectures unless they are ill or prevented from attending by exceptional circumstances. Students are responsible for all lecture materials, including all class announcements. Please come prepared to class.

Academic Honesty

Academic honesty is expected and required of students enrolled in this course. Suspected academic dishonesty in this course will be handled according to the procedures set out in the *Student Code of Conduct*.

Classroom policy regarding the H1N1 Flu

Students will not be penalized for illness-related absences and will be provided with opportunity to make up missed assignments. Physician's notes will not be required, but students must inform the instructor of their condition and report to the instructor when they are back in class. The instructor has the authority and responsibility to require a student who is exhibiting clear symptoms of the flu to leave the classroom and not return until he is without a fever for at least 24 hours without the use of fever reducing medications.

Tentative schedule, subject to change

Date:	Topic:	Textbook Chapter:
Sep 28	Syllabus, Theories of regulation	Chapters 2 and 10
Sep 30	Theories of regulation	Chapter 10
Oct 5	Asymmetric information and regulation	
Oct 7	No class	
Oct 12	Review of math techniques, case study	
Oct 14	No class	
Oct 19	Asymmetric information and regulation, case study	
Oct 21	Monopoly	Chapter 11
Oct 26	Monopoly, case study	Chapter 11
Oct 28	Midterm	
Nov 2	Types of regulation	Chapter 12
Nov 4	Types of regulation	Chapter 12
Nov 9	Case study	
Nov 16	Regulation of electricity	Chapter 12
Nov 18	Case Study	
Nov 23	Regulation of telecommunications	Chapter 15
Nov 25	Case Study	
Nov 30	Regulation of transportation	Chapter 17
Dec 2	Case Study	