

# Welcome to ECON 481!

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ECON 481: Government Regulation of Economic  
Activity

## Lecture 1 – Administration

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- Class website: see compass2g
- TA/Grader: Zening Li, [zli54@Illinois.edu](mailto:zli54@Illinois.edu)
- Office hours: After class or by appointment
- Textbook recommended: Carlton, D. and J. Perloff, Modern Industrial Organization 4<sup>th</sup> Edition.
- Textbook recommended: Jeffery Church and Roger Ware, Industrial Organization: A Strategic Approach.

## Lecture 1 Motivation

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This course is an economic topic course. How is it different from other econ classes?

- Open ended course design;
- More research based and student interactive;
- Focus on improving your practical analysis skills with models, literatures and real data.

## Lecture 1 – Grade Distribution

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Homework due at the beginning of class (15%)

- Homework 1 due on Wednesday Feb 6th
- Homework 2 due on Wednesday March 13th
- Homework 3 due on Wednesday April 5th

## Lecture 1 – Grade Distribution

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### Midterms (34%)

- Midterm 1 on Wednesday Feb 13th
- Midterm 2 on Wednesday March 27th

## Lecture 1 – Grade Distribution

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### Case Study (51%)

- Student Presentation to be scheduled (20%)
- Student Attendance/Participation (6%)
- Final Report due on May 3rd (25%)

## Lecture 1 – Course Design

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The first half of the course is about learning old things. You will

1 learn classic firms' competition model;

2 learn frontier popular antitrust analysis tools;

3 learn the U.S. Antitrust laws and the current Horizontal Merger Guidelines.

# Lecture 1 Course Design

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The second half of the course is about conducting your own antitrust analysis

1 You will be assigned one particular merger case, with a team.

2 You will be exposed to literature and data sources.

3 You need to conduct your own antitrust analysis by applying the tools/models we learned in class, and/or adopting models/arguments from existing literature and newspaper, and/or defending your arguments by analyzing over real data.

Most important: Come up with your own way of conducting the analysis, but defending your arguments critically and creatively.



# Lecture 1 – Class Schedule

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## Topic 1 Competition Behavior of Firms

- Introduction
- Perfect Competition
- Monopoly
- Cournot
- Bertrand
- Stackelberg

# Firms' Competition Behavior

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## Topic 2 Antitrust Laws and Analysis

- Final Project Introduction
- Discrete Choice Model
- Linear Model
- U.S. Antitrust Laws
- 2010 Horizontal Merger Guidelines

# Lecture 1 Motivation

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This course is about U.S. government intervention in economics matters.

What are the main reasons for government intervention?

- To correct for market failure;
- To achieve a more equitable distribution of income and wealth;
- To improve the performance of the economy.

# Lecture 1 Motivation

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What are the ways government intervene economic activities?

- Government Legislation and Regulation => The focus of this class;
- Direct State Provision of Goods and Services;
- Fiscal Policy such as taxes and subsidies.

# Lecture 1 Motivation

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This course talks about how government intervene firms competition behavior through government regulations – antitrust laws.

This course shall focus on

- 1 understanding firms competition behavior;
- 2 understand U.S. antitrust laws and up to frontier analysis tools;
- 3 conduct antitrust analysis to real life antitrust cases.

# Lecture 1 Motivation

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What is antitrust laws?

Antitrust law is essentially a series of highly interpretable and ever-changing guidelines meant to encourage stable competition between businesses; in essence they are laws to protect against anti-competitive monopolists and conspiracies.

U.S. antitrust law is essentially competition law.

The two principle antitrust offences are

- Monopolisation;
- Conspiracy to restrain trade.

# Lecture 1 Motivation

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Case Overview: In 2006, Whirlpool proposed to the Department of Justice the acquisition of Maytag in a merger of home appliance makers. At that time, Whirlpool has the largest market share in home appliance market and Maytag has the second largest market share.

Q1. If you are the department of Justice, will you say yes to the merger of Whirlpool and Maytag and why?

Q2. If you are an antitrust economist, what will your prediction of the merger to the home appliance market in general, and to the prices, market shares, product qualities of the merged two firms and the rest?

Q3. Overall, do you think this merger will benefit or harm the consumers and why?

Q4. In order to conduct the antitrust analysis, what are the data you will need?

# Lecture 1 Motivation

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Overall, what you can take away from this course

- Understand firms' competition behavior
- Learn about U.S. Antitrust law and current merger guidelines
- Conduct antitrust analysis particularly in Mergers and Acquisitions
- Practice with real antitrust cases by writing expert reports and perform student presentation.
- Good for future job opportunities –Economic Consulting



Preview of Next Time => Firms Competition Behavior

**Competition** => Next Class

## **Monopoly**

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- Monopoly
- Monopoly with a competitive fringe
- Monopolistic competition

## **Oligopoly**

- Noncooperative Competition  
    Cournot; Bertrand; Stackelberg, Game Theories
- Cooperative Competition  
    Cartels

## Preview of Next Class and Reading List

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Before next Monday, read the following articles

- 1 Carlton and Perloff Chapter 3
- 2 Carlton and Perloff Chapter 4