

Predation, asymmetric information and strategic behavior in the classroom: an experimental approach to the teaching of industrial organization

C. Monica Capra^a, Jacob K. Goeree^{c,b}, Rosario Gomez^d,
Charles A. Holt^{b,*}

^a*Williams School, Washington and Lee University, Lexington, VA 24450, USA*

^b*Department of Economics, University of Virginia, 114 Rouss Hall, Charlottesville, VA 22901, USA*

^c*University of Amsterdam, Roetersstraat 11, 1018 WB Amsterdam, The Netherlands*

^d*Department of Economics, University of Malaga, 29013 Malaga, Spain*

Abstract

Classroom market experiments can complement the theoretical orientation of standard industrial organization courses. This paper describes various experiments designed for such courses, and presents details of a multi-market game with entry and exit. In this experiment incumbents have a cost advantage in their ‘home’ markets, and mobile firms decide which market to enter. After entry decisions are made, firms choose prices and quantities to offer for sale. Predatory pricing is possible with this setup, and the experiment can be used to motivate discussions of monopoly, competition, entry, and efficiency. Other classroom experiments with an industrial organization focus are surveyed. © 2000 Elsevier Science B.V. All rights reserved.

Keywords: Classroom experiments; Multi-market games; Asymmetric information; Predatory pricing

JEL classification: C72; C92

1. Introduction

In industrial organization classes, it is often difficult to bridge the gap between

*Corresponding author. Fax: +1-804-982-2904.

E-mail address: cah2k@virginia.edu (C.A. Holt)

the tight predictions of abstract theoretical models of industry equilibrium and the broad patterns that emerge from econometric studies of industry and firm-level data. Moreover, discussions of policy issues are often clouded by disputes over purely empirical issues, e.g. whether an alleged predator priced below marginal cost or whether a pattern of uniform behavior across firms was the result of illegal conspiracy. Laboratory experiments, in contrast, can provide a source of data that is closely related to both theoretical and policy issues. They also provide a clear way to test the predictions of game theory which is at the core of most theoretical analysis in industrial organization today. Although these experiments are typically run with financially motivated subjects in a laboratory environment, many of them can be adapted for class use. As such, they can complement the standard teaching methods in this field.

Classroom experiments can be harder to carry out successfully than would appear at first; sometimes seemingly minor design errors cause major problems with the data, as with an error in a computer program. The experimental economics literature, and the classroom experiments literature in particular, can be useful in avoiding common errors. Therefore, we begin this paper with a detailed description of a price–choice experiment that has a particularly interesting multi-market structure. The setup can generate seemingly predatory behavior. In particular, the traders who have been assigned the role of an incumbent firm have strong incentives to price aggressively. Although the resulting prices do not always violate standard cost-based antitrust rules, the outcomes are often consistent with predatory intent: entrants shy away from aggressive incumbents, who price below entrants' average costs and then raise prices to monopoly levels when rivals are driven out. The exercise provides a useful way to illustrate the possibility of predatory pricing, and the results illustrate the trade-off between foregoing current profit for future gains, the possibility of reputation building, and the strategic importance of asymmetric information. The class discussions that follow can focus on the potential effects of predatory behavior on consumer welfare, in the short and long run. The *ex post* analysis can highlight the difficulties of identifying predatory intent and the appeal of simple, cost-based antitrust rules.

The paper is organized as follows. The next section describes the multi-market price–choice experiment, both in terms of procedures to follow and how to structure the class discussion. The third section describes how to set up other types of industrial organization experiments, e.g. quantity competition (Cournot), quality competition and asymmetric information, location games, etc. The final section concludes.

2. A multi-market experiment with entry and exit

Market experiments, like the theoretical models that motivate them, can roughly be categorized by whether terms of trade are proposed by one side of the market

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات