

## Economics 635(L01) Regulatory Economics

Instructor:	Aidan Hollis	Lecture Location:	SS 423
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Office Hours:	By appointment only	FALL 2015	

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**Desire2Learn:** This course will make use of the Desire2Learn (D2L) platform. Students who are registered in the course can log on at <http://d2l.ucalgary.ca> using or through their student centre. Please note that D2L features a class e-mail list that may be used to distribute course-related information. . These e-mails go to your University of Calgary e-mail addresses only.

**Textbook(s):**

Mark Armstrong and David E.M. Sappington , Chapter 27 “Recent Developments in the Theory of Regulation” in Handbook of Industrial Organization, Volume 3, 2007, Pages 1557-1700. Available as pdf online.

*Industrial Organization: A Strategic Approach* by Church & Ware. Irwin McGraw-Hill. Available as pdf online **[Optional]**

A detailed reading list and course calendar will be distributed during the first week of classes. The assigned reading material will be articles, chapters, and case decisions/filings. The readings will be available online.

**Course Description:**

The objective of this course is to develop expertise in regulatory economics, defined as price and entry regulation. Price and entry regulation occurs when the state restricts who can provide services and approves the terms (price, quality, product variety etc.) of service. The course will consider three broad topics: (i) Why regulate? (ii) How should firms/industries be regulated? and (iii) How are firms actually regulated? A considerable part of the course will address regulatory restructuring in network industries, with case studies on electricity reform, local telecommunications, and pipelines.

The term project will include four graded components: (1) an outline, (2) a preliminary draft, (3) an in-class presentation and (4) a final paper.

Each student will present a paper from the reading list in class.

Class participation is graded, since this is seminar course.

Students who successfully complete this course will

- (i) Understand and appreciate the history, rationale, and functioning of regulatory institutions.
- (ii) Understand and appreciate key principles, theories and ideas in the regulatory economics literature.
- (iii) Be able to apply the key principles in the regulatory literature to analyze, critique, and craft regulatory institutions and policies.
- (iv) Develop skills in researching, writing, and presenting analysis of regulatory issues.

**Brief Course Outline:**

1. Why Regulate? The Rationale for Regulation and Theories of Regulation
2. Optimal Pricing of Natural Monopoly
3. Regulation Under Asymmetric Information
  - a. Unknown marginal costs
  - b. Dynamic considerations
  - c. Auditing
  - d. Yardstick competition
4. Introducing Competition into Network Industries
5. Exploration of a specific industry (to be determined)

If students indicate an interest, other topics may be considered. Students wishing to take the course and interested in a particular regulatory topic should contact me as early as possible.

**Grade Determination and Final Examination Details:**

Assignment 1		5%
Assignment 2		5%
Midterm	Oct.29	10%
Term Project		50%
Seminar presentation		5%
Class participation		5%
FINAL EXAMINATION		<u>20%</u>
		100%

All components are marked on a numerical (percentage) basis. The course grade is then calculated using the weights indicated above. The following letter grade equivalences will apply:

A+	93-100	B	73-76	C-	60-62
A	86-92	B-	70-72	D+	55-59
A-	80-85	C+	67-69	D	50-54
B+	77-79	C	63-66	F	<50

Writing quality will be a factor in the evaluation of all student work. Details on the term project will be provided in the first week of classes.

Non-programmable calculators are permitted for all exams. There will be a department scheduled final examination during the final examination period which will be two hours in duration and held in a classroom. The final examination will be comprehensive and neither it or the midterm will have

multiple choice questions. In cases of documented illness or family emergency, extra weight will be given to the final examination. Any student work which remains undistributed after the last day of classes will be available to students through the instructor's office during his office hours.

**Notes:**

Students seeking reappraisal of a piece of graded term work (term paper, essay, etc.) should discuss their work with the Instructor within *fifteen days* of the work being returned to the class.

It is the student's responsibility to request academic accommodations. If you are a student with a documented disability who may require academic accommodation and have not registered with the Disability Resource Centre, please contact their office at 220-8237. Students who have not registered with the Disability Resource Centre are not eligible for formal academic accommodation. You are also required to discuss your needs with your instructor no later than fourteen (14) days after the start of this course.

Safewalk / Campus Security: 220-5333  
Emergency Assembly Location – Professional Faculties Food Court  
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2015-07-07