

Econ 260: Topics in Industrial Organization

This course is the third course in a three-quarter sequence in industrial organization (IO). It covers selected topics of recent interest in industrial organization, with an emphasis on transitioning students into research. We strongly recommend the class to students in the economics department who intend to write theses in industrial organization. The class may also be useful for students working in other applied fields who wish to learn about the various approaches to economic questions and empirical methods used in IO.

The first two-thirds of the class are organized in standard lecture format. The last third of the class is devoted to student presentations and discussion. This year, the lectures will focus on recent research on insurance markets, credit markets and the industrial organization of the financial service sector. There will also be a few guest lectures.

Our goals in the course are to take students closer to the research frontier in several areas, and to help students acquire the skills required to write a thesis in IO. We hope to balance two objectives: learning how to identify and pose interesting questions, and learning how to formulate and execute empirical analysis that sheds light on the questions. We also plan to highlight the use of theory to guide hypothesis testing and the specification of empirical models.

In order to highlight approaches to posing interesting questions in IO, we will cover a smaller number of topics in more depth. This will allow us to highlight unanswered questions on the research frontier, as well as show how alternative methods can be used to answer questions in the same area.

Course logistics and requirements

The class meets on Mondays and Wednesdays, 9:00-10:50 in Landau-Economics 106. Course materials will be posted on Coursework. The main requirement for the class is a research paper. The paper is due at the end of the quarter, on June 5; we've had bad experience in the past, so this is a firm deadline with no exceptions. Students are also expected to present a short research proposal on April 27, and to make a longer presentation toward the end of the term. We will discuss possible topics in class.

This is an advanced topics course aimed at students who wish to write theses in IO. As a prerequisite, students should have completed Economics 257 and 258. Students with training in other applied fields should probably be able to follow the course as well, but do check with one of us to see if you have adequate preparation.

While the research paper required for the class can (and probably should) include critical reviews of at least several (preferably recent) related papers, an important component of the presentations and the paper will be a detailed and specific proposal for further

research in this area, and if it is at all possible initial work in this direction. The proposals should pose and motivate one or more related research questions, and discuss approaches to answering them as well as potential data sources. As we move through the three iterations of the term (the short proposal on April 27, the longer presentation later, and the final term paper) the research question to be addressed and the methods and data to be used to answer it should be stated more and more completely. The paper should be sufficiently detailed and complete in its argument to guide an annoyingly literal-minded and non-self-starting research assistant through the entire process of estimation and write-up of the first draft of a publishable paper. We plan for each of the second round class presentations to be followed by a critical discussion about the research topic, and hope that this discussion will guide further work that will shape up the final term paper.

Tentative class schedule

1. Testing for Asymmetric Information in Insurance Markets (LE, 4/1)

- (*)Chiappori and Salanie, "Testing for Asymmetric Information in Insurance Markets," JPE, 2000.
- Chiappori and Salanie, "Testing Contract Theory: A Survey of Some Recent Work," in M. Dewatripont and L. Hansen, ed., *Advances in Economics*.
- Fang, Keane, and Silverman, "Sources of Advantageous Selection: Evidence from the Medigap Insurance Market," JPE, 2008.
- (*)Finkelstein and McGarry, "Multiple dimensions of private information: evidence from the long-term care insurance market," AER, 2006.
- Finkelstein and Poterba, "Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market," JPE, 2004.
- Genesove, "Adverse Selection in the Wholesale Used Car Market," JPE, 1993.
- Israel, "Do We Drive More Safely When Accidents Are More Expensive? Identifying Moral Hazard from Experience Rating Schemes," working paper.
- Pueltz and Snow, "Evidence on Adverse Selection: Equilibrium Signaling and Cross-Subsidization in the Insurance Market," JPE, 1994.

2. Estimating Demand for Insurance (LE, 4/6)

3. Estimating Demand for Insurance (LE, 4/8)

- (*)Cardon and Hendel, "Asymmetric Information in Health Insurance: Evidence from the National Medical Expenditure Survey," Rand, 2001.
- (*)Cohen and Einav, "Estimating Risk Preferences from Deductible Choice," AER, 2007.
- Einav, Finkelstein, and Schrimpf, "The Welfare Cost of Assymmetric Information: Evidence from the U.K. Annuity Market," working paper.

4. Guest Lecture: Identification of Structural Economic Models (Phil Haile, 4/13)

- Athey, Susan and Phil Haile, "Identification of Standard Auction Models," *Econometrica*, 70(6), November 2002, pp. 2107-2140.
- Hail, Phil and Elie Tamer, "Inference with an Incomplete Model of English Auctions," *Journal of Political Economy*, 111(1), February 2003, pp. 1-51.

- Athey, Susan and Phil Haile, "Nonparametric Approaches to Auctions," in J. Heckman and E. Leamer, *Handbook of Econometrics, Vol 6A*, Elsevier, 2007.
- Haile, Phil, Ali Hortacsu and Grigory Kosenok, "On the Empirical Content of Quantal Response Equilibrium," *American Economic Review*, 98(1), March 2008, pp. 180-200.
- Berry, Steve and Phil Haile, "Nonparametric Identification of Multinomial Choice Demand Models with Heterogeneous Consumers," Yale Working Paper, 2008.

5. Guest Lecture: Economics of Advertising (Kyle Bagwell, 4/15)

- Bagwell, Kyle, "The Economic Analysis of Advertising," in Mark Armstrong and Rob Porter (eds.), *Handbook of Industrial Organization*, Vol. 3, North-Holland: Amsterdam, 2007, 1701-1844.
- Bagwell, Kyle, ed. *The Economics of Advertising*, Edward Elgar, 2001.

6. Welfare in Insurance Markets (LE, 4/20)

- (*)Einav, Finkelstein, and Cullen, "Estimating welfare in insurance markets using variation in prices," working paper.
- (*)Bundorf, Levin, and Mahoney, "Pricing, Matching and Efficiency in Health Plan Choice," working paper.
- Carlin and Town, "Adverse Selection, Welfare and Optimal Pricing of Employer-Sponsored Health Plans," working paper.
- Lustig, "The Welfare Effects of Adverse Selection in Privatized Medicare," working paper.

7. Dynamic Insurance Contracts (LE, 4/22)

- Cohen, "Asymmetric Information and Learning in the Automobile Insurance Market," REStat, 2005.
- Hendel and Lizzeri, "The role of commitment in dynamic contracts: evidence from life insurance," QJE, 2003.

8. Research Proposals: Short Student Presentations (4/27)

9. Economic Theory of Credit Markets (JL, 4/29)

- (*) Jaffee, Dwight and T. Russell, "Imperfect Information, Uncertainty and Credit Rationing," *Quarterly Journal of Economics*, 1976.
- (*) Stiglitz, Joseph and Andrew Weiss, "Credit Rationing in Markets with Imperfect Information," *American Economic Review*, 1981.
- Berger, Allen and Gregory Udell, "Some Evidence on the Empirical Significance of Credit Rationing," *Journal of Political Economy*, 1992.
- Geanakoplos, John, "Liquidity, Default and Crashes," in *Advances in Economics and Econometrics*, 2003.
- Fostel, Ana and John Geanakoplos Leverage Cycles and the Anxious Economy," *American Economic Review*, 2008.

10. Liquidity, Information and Pricing in Subprime Lending (JL, 5/4)

- (*) Adams, William, Liran Einav and Jonathan Levin, "Liquidity Constraints and Imperfect Information in Subprime Lending," *American Economic Review*, March 2009.
- (*) Einav, Liran, Mark Jenkins and Jonathan Levin, "Contract Pricing in Consumer Credit Markets," Stanford Working Paper, 2008.
- Einav, Liran, Mark Jenkins and Jonathan Levin, "The Impact of Information Technology on Consumer Lending," Stanford Working Paper, 2008.
- Jenkins, Mark, "What Drives Default in Subprime Lending?" Stanford Working Paper, 2008.

11. Credit Card Markets (JL, 5/6)

- (*) Ausubel, Larry, "The Failure of Competition in the Credit Card Market," *American Economic Review*, 81(1), March 1991, pp. 50-81.
- (*) Ausubel, Larry, "Adverse Selection in the Credit Card Market," University of Maryland Working Paper, June 1999.
- Agarwal, Sumit, John C. Driscoll, Xavier Gabaix and David Laibson. Learning in the Credit Card Market, Harvard Working Paper, 2008
- (*) Agarwal, Sumit, John C. Driscoll, Xavier Gabaix, and David Laibson. The Age of Reason: Financial Decisions Over the Lifecycle, Harvard Working Paper, 2007.
- Agarwal, Sumit, S. Chomsisengphet, and Nicholas Souleles, "Do Consumers Choose the Right Credit Contracts," Wharton Working Paper, 2008.
- Gross, David and Nicholas Souleles, "Do Liquidity Constraints and Interest Rates Matter for Consumer Behavior? Evidence from Credit Card Data," *Quarterly Journal of Economics*, 117(1), February 2002.
- Ponce-Rodriguez, Alejandro, *Consumer and Firm Behavior in the Credit Card Market*, Stanford Ph.D. Dissertation, 2008.

12. Subprime Mortgage Market (JL, 5/11)

- Mayer, Christopher, Karen Pence and Shane Sherlund, "The Rise in Mortgage Defaults," *Journal of Economic Perspectives*, 23(1), Winter 2009.
- Mayer, Christopher, and Karen Pence, "Subprime Mortgages: What, Where and to Whom?" Columbia University Working Paper, 2008.
- "Reducing Foreclosures." with Christopher Foote, Kristopher S. Gerardi and Lorenz Goette. *NBER Macroeconomics Annual 2009*, forthcoming.
- "The Impact of Deregulation and Financial Innovation on Consumers: The Case of the Mortgage Market." with Kristopher S. Gerardi and Harvey Rosen. *Journal of Finance*, forthcoming.
- "Making Sense of the Subprime Crisis." with Kristopher S. Gerardi, Andreas Lehnert and Shane Sherlund. *Brookings Papers on Economic Activity*, forthcoming.

13. Securitization of Credit Contracts (JL, 5/13)

- Coval, Joshua, Jakub Jurek and Erik Stafford, "The Economics of Structured Finance," *Journal of Economic Perspectives*, 23(1), Winter 2009.

- Coval, Joshua, Jakub Jurek and Erik Stafford, "Economic Catastrophe Bonds," *American Economic Review*, 2009.
- Keys, Benjamin, Tammoy Mukherjee, Amit Seru and Vikrant Vig, "Did Securitization Lead to Lax Screening? Evidence From Subprime Loans," Chicago GSB Working Paper, 2008.
- Drucker, Steve and Chris Mayer, "Inside Information and Market Making in Secondary Mortgage Markets," Columbia Working Paper, January 2008.
- Gan, Yingjin Hila and Chris Mayer, "Agency Conflicts, Asset Substitution and Securitization," Columbia University Working Paper, June 2007.
- Ashcraft, Adam and Til Schuerman, "Understanding the Securitization of Subprime Mortgage Credit," New York Federal Reserve Working Paper, 2008.
- Geanakoplos, John, "'Solving the Present Crisis and Managing the Leverage Cycle," Yale University Working Paper, 2008.
- New York Federal Reserve Bank, Description of TALF Program, <http://www.newyorkfed.org/markets/talf.html>.

14. Student Presentations (5/18)

15. Student Presentations (5/20)

16. Student Presentations (5/27)

17. Student Presentations (6/1)

18. Student Presentations (6/3)