

Econ 340 Industrial Economics

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- Microeconomics: mostly ideal
- Industrial organization/economics:
 - mostly specialized
 - more real world

- Industrial Economics
 - Structure of markets and firms
 - Transaction costs
 - Informational asymmetries
 - Entry barriers
 - Regulation and supervision by public bodies

- Industrial economics: analysis methods
 - Structure-conduct-performance:
 - institutional aspects of how markets and firms function
 - Descriptive
 - Performance of an industry: how well it serves consumers
 - Performance depends on conduct
 - Conduct depends (partly) on structure of the market
 - Price (microeconomic) theory

Some basic concepts

- Transaction costs: business transactions is not free of cost.
- Bounded rationality: human mental power is not unlimited in capacity. Humans are not computers.
- Contestable markets: low entry barriers may render a market competitive.
- Informational asymmetry
- Price setter; price taker
- Monopoly
- Monopolistic competition
- Monopsony
- Oligopoly
- Collusion
- Price discrimination

The Firm and its Costs

- Consumers: maximize utility
- Firms: maximize profits

Ownership types:

- Sole propritersip & partnerships
- Incorporated business
 - LLCs
 - Joint stock companies

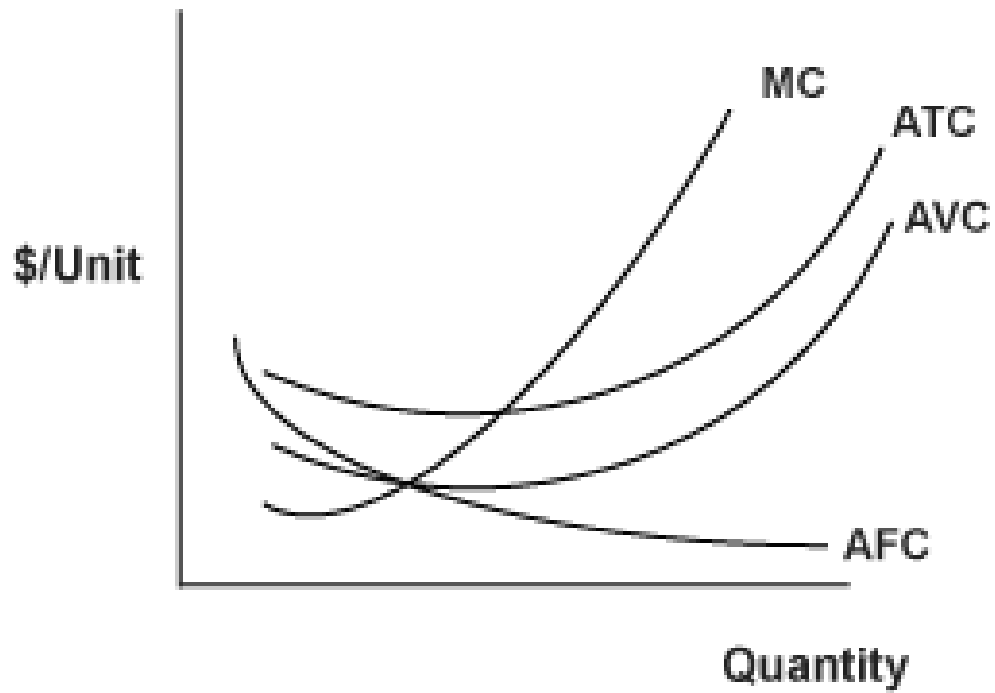
- Principal agent problem / separation of ownership and management

- Size of companies
 - Grow to produce more
 - Grow to produce different goods/services
 - Grow to vertically integrate

- Size growth
 - Organic
 - Inorganic
- M&As: Why
 - Economies of scale
 - Economies of scope
 - Takeovers for better performance

- Total (production) costs (TC)
 - Fixed costs (FC)
 - Sunk
 - Recoverable
 - Variable costs (VC)
- Average (production) costs (AC)
 - Average fixed costs (AFC)
 - Average variable costs

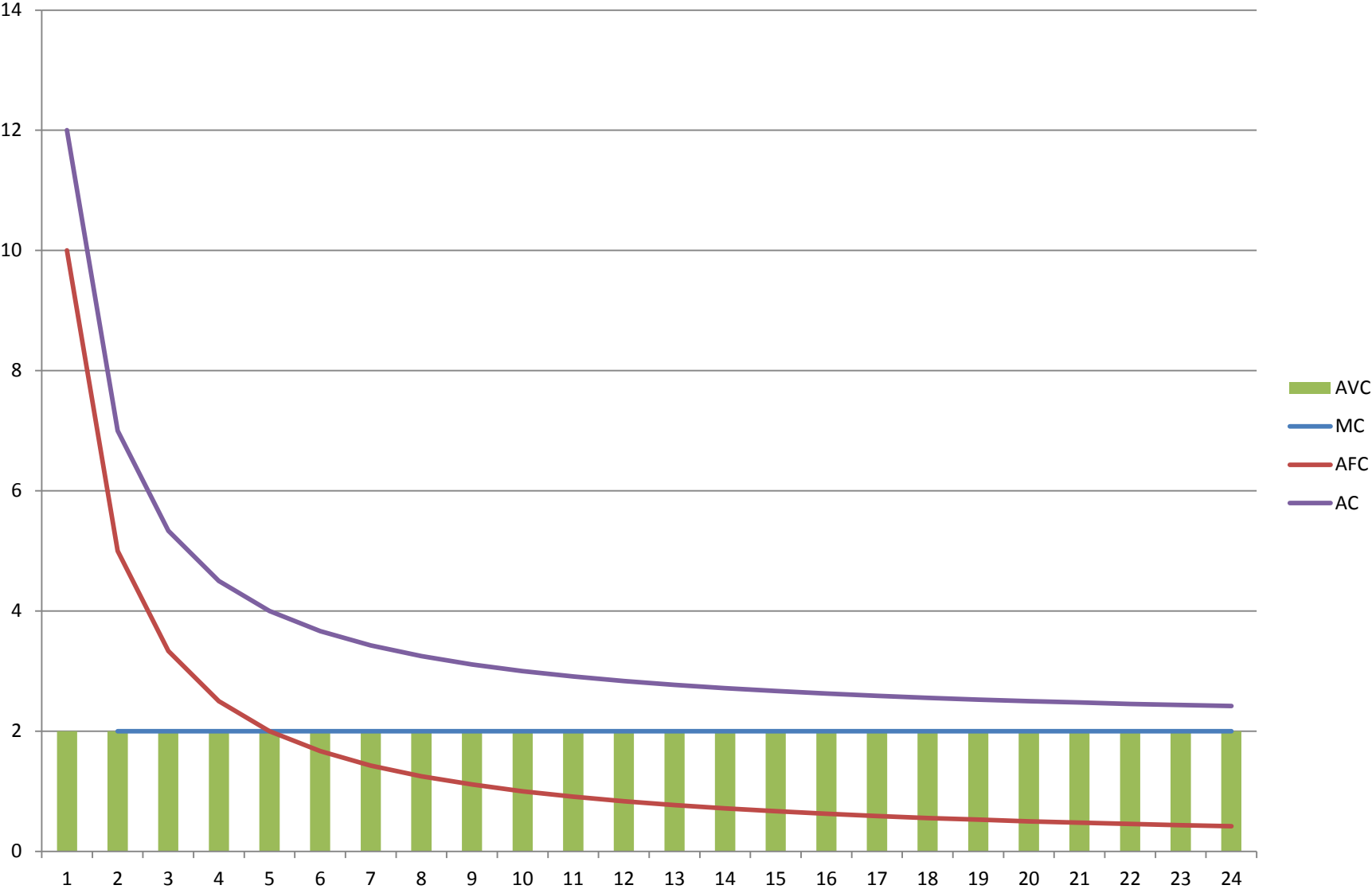
- Costs



AVC constant

Unit	Fixed costs	Variable Cost (per unit)	Total cost	MC	AFC	AVC	AC
1	10	2	12		10	2	12.0
2	10	2	14	2.0	5.0	2	7.0
3	10	2	16	2.0	3.3	2	5.3
4	10	2	18	2.0	2.5	2	4.5
5	10	2	20	2.0	2.0	2	4.0
6	10	2	22	2.0	1.7	2	3.7
7	10	2	24	2.0	1.4	2	3.4
8	10	2	26	2.0	1.3	2	3.3
9	10	2	28	2.0	1.1	2	3.1
10	10	2	30	2.0	1.0	2	3.0
11	10	2	32	2.0	0.9	2	2.9
12	10	2	34	2.0	0.8	2	2.8
13	10	2	36	2.0	0.8	2	2.8
14	10	2	38	2.0	0.7	2	2.7
15	10	2	40	2.0	0.7	2	2.7
16	10	2	42	2.0	0.6	2	2.6
17	10	2	44	2.0	0.6	2	2.6
18	10	2	46	2.0	0.6	2	2.6
19	10	2	48	2.0	0.5	2	2.5
20	10	2	50	2.0	0.5	2	2.5
21	10	2	52	2.0	0.5	2	2.5
22	10	2	54	2.0	0.5	2	2.5
23	10	2	56	2.0	0.4	2	2.4
24	10	2	58	2.0	0.4	2	2.4

AVC constant



AVC non-constant

Unit	Fixed costs	Variable Cost (per unit)	Total cost	MC	AFC	AVC	AC	Total VC
1	10	2.0	12.0		10	2.0	12.0	2.0
2	10	1.9	13.9	1.9	5.0	2.0	7.0	3.9
3	10	1.8	15.7	1.8	3.3	1.9	5.2	5.7
4	10	1.7	17.4	1.7	2.5	1.9	4.4	7.4
5	10	1.6	19.0	1.6	2.0	1.8	3.8	9.0
6	10	1.5	20.6	1.5	1.7	1.8	3.4	10.6
7	10	1.5	22.1	1.5	1.4	1.7	3.2	12.1
8	10	1.4	23.5	1.4	1.3	1.7	2.9	13.5
9	10	1.3	24.8	1.3	1.1	1.6	2.8	14.8
10	10	1.5	26.3	1.5	1.0	1.6	2.6	16.3
11	10	1.6	27.9	1.6	0.9	1.6	2.5	17.9
12	10	1.8	29.7	1.8	0.8	1.6	2.5	19.7
13	10	2.0	31.7	2.0	0.8	1.7	2.4	21.7
14	10	2.2	34.0	2.2	0.7	1.7	2.4	24.0
15	10	2.5	36.4	2.5	0.7	1.8	2.4	26.4
16	10	2.8	39.2	2.8	0.6	1.8	2.4	29.2
17	10	3.1	42.3	3.1	0.6	1.9	2.5	32.3
18	10	3.4	45.7	3.4	0.6	2.0	2.5	35.7
19	10	3.8	49.4	3.8	0.5	2.1	2.6	39.4
20	10	4.2	53.6	4.2	0.5	2.2	2.7	43.6
21	10	4.6	58.2	4.6	0.5	2.3	2.8	48.2
22	10	5.2	63.4	5.2	0.5	2.4	2.9	53.4
23	10	5.7	69.1	5.7	0.4	2.6	3.0	59.1
24	10	6.3	75.5	6.3	0.4	2.7	3.1	65.5

AVC constant

