INDUSTRIAL ORGANIZATION AND CORPORATE FINANCE: THEORY AND POLICY (4 ETCS)

Date and Location: Monday 25.2 to Friday 1.3.2013 (8 lectures of 90 min each) at Lund, Sweden
Lecturers: Lars Persson and Joacim Tåg, IFN
Examination: Take-home exam (based on a reading list) and a term paper (in the form of an "Economics Letters" article inspired by recent business or policy case).

Description:
In the wake of the financial crisis increased attention in economic research has been given to how financial markets affect industrial development. The goal of this course is to introduce students in economics and in finance to central policy issues at the intersection of industrial organization and corporate finance theory. The course consists of two parts.

Product Markets and Competition Law. A motivation for competition law lies in the fact that strategic investments undertaken by firms sometimes create negative externalities on rival firms and consumers. This implies that there is overinvestment in such business strategies, since the negative effects are not internalized. The lectures in this module are organized around the EU Competition Law, that is:

- Merger Regulation 4064/89 in EU (Merger Formation),
- Article 81 in EU Competition Law: Horizontal and Vertical Agreements (Collusion).
- Article 82 in EU Competition Law: Abuse of a Dominant Position (Predation).

These lectures will address, in detail, the externalities between firms and consumers in concentrated markets and how market participants themselves act to internalize them. We will also examine how competition law affects efficiency in the product market.

Product Markets and Corporate Law. A motivation for corporate law lies in mitigating conflicts of interest between entrepreneurs/managers and investors. Standard industrial organization models of strategic interaction in markets often make simplifying assumptions about how the corporate law determines the functioning of firms. In particular, the owner of the firm has full ownership and complete control of all product market decisions, is entitled to all cash flows, and is not financially constrained. Relaxing these assumptions has at least three implications:

- *The managerial firm:* Corporate law designates to a large extent the relationship between the owners of the firm and the manager. The introduction of managers to the firm raises the question of how corporate governance interacts with product market outcomes.
- *Liquidity constraints and security design:* Corporate law regulates incorporation forms, the power of stakeholders, and liquidation rules surrounding firms. An implication of introducing liquidity-constrained firms is that security design now affects product market outcomes.
- *Partial ownership and ownership allocation:* Separation of ownership and control allows for cross-ownership among rivals in the product market and influences ownership allocation through mergers and acquisitions.

This part of the course will cover how these issues affects policy conclusions that can be drawn from industrial organization models. We will also examine how corporate governance regulations and financial market regulations interact with competition policy.

Registration: Contact Elisabeth Gustafson (elisabeth.gustafson@ifn.se) before the 10th of February 2013.