

BUEC 396-INDUSTRIAL STRUCTURES
TERM PAPER INSTRUCTIONS, 2005-2

A. Format

Term papers must be properly referenced. The SFU Library style guide for term papers is available on the Web or in hard copy in the Library. Use it. Papers must be typed. The question of length always arises. There is neither strict minimum nor maximum. Use as many pages as it takes to do the job but keep in mind that normally the job can be done with about 15 pages (yes, double-spaced, 8.5 x 11 inches, one side, with margins, not including tables). DO NOT bind your paper, or use plastic covers -- just staple the upper left hand corner.

B. Guidelines and Dates

1. A one-page outline of your project is due in class on May 30th. The outline should indicate that you have done some preliminary research and that your subject can be done.
2. Papers are due at the end of class on July 25th. Papers are graded out of 100 points. For each day (or part thereof) that the paper is late, the score will be reduced by 3 points. Please, no exceptions.
3. Papers will not be returned so make a copy for yourself. You may of course see your graded paper, and copy that if you wish, but the original remains with me. .

C. Subject

Your assignment is to apply the whole, or parts of the industrial organization model to a specific Canadian industry. The basic Structure/Conduct/Performance model is set out in Figure 1.1 of the Scherer text (page 2).

You may choose to apply the entire model to a specific industry. This is appropriate when dealing with a small, relatively "unstudied" industry (e.g. the Vancouver mortuary services industry). Or you may choose to apply a portion of the model to a larger, more complex industry. At a minimum you must discuss the definition of the market, basic conditions and market structure. As you work through the paper you might address issues listed below. You are **NOT** expected to address all these issues, indeed it is unlikely that all would apply to any single industry.

POTENTIAL ISSUES TO ADDRESS

Market Definition

- *Identify the collection of products and the geographic area that constitutes the economic market; follow the methodology of the Competition Bureau's Merger Enforcement Guidelines as best you can.*
- *Distinguish key product or service characteristics: Is it a durable good or a perishable? Is it an intermediate product or a final product?*
- *Is this product a component of a system of highly complementary products?*

Basic Conditions

- *Express quantitatively—or more realistically, qualitatively—the properties of product demand, e.g., price, income and cross price elasticities.*
- *Identify close substitutes and complements in demand, and status of those markets.*
- *To what extent are there scale economies or diseconomies and what is the cause?*
- *Are there significant sunk costs of production?*
- *Is there evidence of scope economies and what is the shared input?*
- *Does production require any unique scarce resource (e.g., a mineral ore, a patented technique)?*
- *Are there significant demand-side scale economies (i.e., network externalities) that consumers of the product experience?*

Industry Structure

- *How many firms are there, and what is their size distribution?*
- *Calculate or report concentration measures (e.g., HHI or C4) if possible.*
- *Historically has there been one dominant firm, or is there active turnover among leading firms?*
- *Are there many potential entrants who could quickly start production?*
- *Do imports pose a significant threat to the domestic firms? What share of the market do imports represent?*
- *Are there significant entry barriers such as high levels of advertising, patents, or government entry restrictions (e.g., taxi licences)?*
- *Are products highly differentiated?*
- *To what extent are firms in the industry vertically integrated?*
- *To what extent have mergers and divestitures contributed to the current structure of the industry?*

Conduct and Strategic Behavior

- *Identify unique pricing practices used in the industry.*
- *Is there regular use of bundling, or tying?*
- *In cases where the product is durable, do firms rent or sell it?*
- *Do firms impose vertical restrictions such as resale price maintenance, exclusive dealing or exclusive territories?*

- *Is advertising a large percentage of costs?*
- *Does one firm tend to be the industry's price leader, or does this role alternate?*
- *Do firms compete by making significant investments in research & development?*

Performance

- *How large are the firms' price-cost margins?*
- *How large are firms' profits or rates of return on capital or on equity?*
- *Is the pace of technical change fast or slow?*
- *Does the industry provide much product variety or are products relatively homogeneous?*

Government Intervention

- *Have there been any significant antitrust decisions in the industry, especially ones that break up firms, prevent certain proposed mergers, or ban certain pricing practices?*
- *To what extent are prices and product quality regulated? Or is entry controlled by regulators?*
- *Do foreign competitors operate under trade barriers or import tariffs? Can they acquire domestic firms?*
- *How important is intellectual property protection (patents, copyrights, trademarks) to explaining market structure?*

E. Source Material

When you have chosen your subject, the reading assistant and I will assist you with source material. In general you will use both primary and secondary data sources. Primary sources would include:

- interviews with industry participants, trade association officials, government officials, and other knowledgeable people
- personal observations
- transcripts of public hearings, court proceedings and parliamentary debates
- Competition Tribunal decisions (on the web)
- private and public sector submissions to Royal Commissions and other regulatory bodies (e.g. the CRTC)
- Government White Papers (sometimes green, sometimes blue)
- Statistics Canada data and Industry Canada data (much of this is on the web)

Secondary sources include someone else's analysis of an issue. These would include published books and articles, masters and doctoral theses, and other students' term papers.

There is a wealth of information on the web. The library's economics specialist (Carla Graebner, Liaison Librarian for Economics, Email: cgraebne@sfu.ca) can help you with this.

F. Grading

Papers will be graded on the basis of organization, thoroughness of research, clarity of presentation (which includes grammar and spelling) and originality.

G. Prototypes

I have put two compilations of industry studies on reserve: Walter Adams and James Brock eds., The Structure of American Industry (New Jersey: Prentice Hall, 2001); and Larry L. Duetsch, ed., Industry Studies, (New York: M. E. Sharpe, 2002). Both of these contain good, brief, industry studies.

H. Reader

Michael Gager (Email: mgager@sfu.ca), a graduate student, is the reader assigned to this course. In addition to helping me with grading, he will help you with the term paper. He will keep regular office hours (to be posted) starting in week three. Use this resource, and do not put it off until week 10.