2011 International Conference on Industrial Economics

Saturday, June 11, 2011----Sunday, June 12, 2011

Zhejiang University School of Economics
Center for Research of Private Economy, Zhejiang University

Hangzhou, China

Program

Conference Location: Conference Room 2, Hangzhou JinXi Hotel

Saturday, June 11

8:30	**Registration**
8:45	**Welcome** **Weidong Luo,** Vice President, Zhejiang University **Xiangrong Jin**, Executive Dean, School of Economics, Zhejiang University (ZJU) **Introduction to the Conference** **Yongmin Chen**, University of Colorado at Boulder and ZJU
9:00-10:40	**Session One** Chair: **Ruqu Wang**, Queen's University and ZJU *Exploding Offers and Buy-now Discounts* **Mark Armstrong**, University College London *Selection Biases in Complementary R&D Projects* **Jay P. Choi**, University of New South Wales
10:40-11:10	**Break**
11:10-12:00	**Session Two** Chair: **Shunfeng Song**, University of Nevada and ZJU *Efficiency vs. Flexibility in Public-Private Partnerships* **Tom Ross**, University of British Columbia
12:00-13:30	**Lunch (Xiang Xue Xuan Coffee Bar, Hangzhou Jinxi Hotel)**
13:30-15:10	**Session Three** Chair: **Guofu Tan**, University of Southern California and SHUFE

Vertical Integration, Innovation and Foreclosure
Patrick Rey, Université Toulouse I

Market Positioning and Vertical Boundary of Firm
Zhigang Tao, University of Hong Kong

15:10-15:30 **Break**

15:30-17:10 **Session Four**
Chair: **Shiyuan Pan**, Zhejiang University

A Dollar for Your Thoughts: Feedback-Conditional Rebates on eBay
Lingfang (Ivy) Li, Shanghai University of Finance and Economics

The Effect of Beijing's Driving Restrictions on Pollution and Economic Activity
V. Brian Viard, Cheung Kong Graduate School of Business

18:30-21:00 **Conference Dinner (花园餐厅，龙井路 7 号，17:50 在金溪饭店前集合)**

Sunday, June 12

8:30-10:10 **Session Five**
Chair: **Cheng-Zhong Qin**, UC-Santa Barbara and Shandong University

Product Innovation in Vertically Related Industries
Ping Lin, Lingnan University of Hong Kong

Product Line Rivalry: A Further Analysis
Zhiqi Chen, Carleton University and Nanjing University

10:10-10:30 **Break**

10:30-12:10 **Session Six**
Chair: **Yongmin Chen**, University of Colorado at Boulder and ZJU

Exclusionary Contracts
Ralph Winter, University of British Columbia

Procurement, Investment, and Vertical Integration
Michael Riordan, Columbia University

12:10 **Adjourn and Lunch (Xiang Xue Xuan Coffee Bar, Hangzhou Jinxi Hotel)**

Abstracts of Conference Papers

Exploding Offers and Buy-Now Discounts

Mark Armstrong and Jidong Zhou

Abstract: A common sales tactic is for a seller to encourage a potential customer to make her purchase decision quickly, before she can investigate rival deals in the market. We consider a market with sequential consumer search in which firms can achieve this either by making an exploding offer (which permits no return once the consumer leaves) or by offering a buy-now discount (which makes the price paid for immediate purchase lower than the regular price). We show that firms often have an incentive to use these sales techniques, regardless of their ability to commit to their selling policy. We examine the impact of these sales techniques on market performance. Inducing consumers to buy quickly not only reduces the quality of the match between consumers and products, but may also raise market prices.

Selection Biases in Complementary R&D Projects

Jay Pil Choi and Heiko Gerlach

Abstract: This paper analyzes selection biases in the project choice of complementary technologies that are used in combination to produce a final product. In the presence of complementary technologies, patents allow innovating firms to hold up rivals who succeed in developing other system components. This hold-up potential induces firms to preemptively claim stakes on component property rights and excessively cluster their R&D efforts on a relatively easier technology. This selection bias is persistent and robust to several model extensions. Implications for the optimal design of intellectual property rights are discussed. We also analyze selection biases that arise when firms differ in research capabilities.

Efficiency vs. Flexibility in Public-Private Partnerships

Thomas W. Ross and Jing Yan

Abstract: Over the last twenty years, public-private partnerships (P3s) have become an increasingly popular way for governments to procure for their citizens certain public services (e.g. roads, hospitals, schools, prisons etc.). This paper models a basic trade-off associated with a government's decision whether to use a P3 model or traditional procurement approaches to procure public services: while P3s marshal the power of competitive markets and stronger incentives to lower costs of producing those services, they also involve long-term contracts that may prove relatively inflexible if changes to service production and delivery become necessary. While, *ex ante*, governments can expect competition to control private bidders' prices, after the contract has been signed any necessary changes will have to be negotiated in bilateral bargaining which will almost certainly raise the costs to government. The paper shows that the optimal choice between P3 and traditional methods depends on a number of key parameters including the likelihood that changes will be necessary, the productivity of non-contractible effort exerted by private sector partners, the costs of renegotiation, the difference between first best and second-best projects, and the bargaining power of the government vis-à-vis private parties. It also shows that the optimal choice may depend on whether the government's objective is to maximize "value for money" (i.e. get the right project delivered for the lowest cost to taxpayers) or to maximize total social surplus.

Vertical Integration, Innovation and Foreclosure

Marie-Laure Allain, Claire Chambolle and Patrick Rey

Abstract: This paper studies the potential effects of vertical integration on downstream firms' incentives to innovate. To interact efficiently with suppliers, firms may have to provide sensitive information which, if disclosed to rivals, could facilitate imitation. We show that, by altering the supplier's incentives to protect or exploit its customers' information, vertical integration degrades the supplier's ability to interact with downstream competitors. This leads to input foreclosure, raises rivals' cost and limits both upstream competition and downstream innovation and development. A similar concern of customer foreclosure arises in the case of downstream bottlenecks.

Market Positioning and Vertical Boundary of Firm

Yi Lu and Zhigang Tao

Abstract: It has been a long-standing important question in economics to understand what determines some transactions to be carried out in the markets while others within firms through vertical integration (Coase, 1937). Significant insights have been gained on this issue, especially regarding the cross-industry variation in vertical integration, from the two leading theories of the firm developed thus far, namely, the transaction cost theory (Williamson, 1971, 1985; Klein, Crawford, and Alchian, 1978) and the property rights theory (Grossman and Hart, 1986; Hart and Moore, 1990). However, it remains to be understood what determines the equally substantial within-industry variation in vertical integration. In this paper, we argue that market positioning of a firm within an industry (namely, product differentiation strategy or cost advantage strategy) is a key determinant for the within-industry variation in vertical integration. Using a World Bank survey of 2,400 enterprises in 14 industries and from 18 Chinese cities, we find that product differentiation strategy (defined as the percentage of a firm's products that are made to its clients' unique specifications) has a positive and statistically significant impact on the degree of vertical integration (defined as the percentage of a firm's parts, in terms of its value, that are produced within the firm). Moreover, through the use of the two-step GMM estimation method, we further confirm the causal impacts of market positioning strategy on vertical boundary of firm. Finally, we offer some preliminary thoughts on the theoretical linkage between market positioning strategy and vertical boundary of firm.

A Dollar for Your Thoughts: Feedback-Conditional Rebates on eBay

Luís Cabral and Lingfang (Ivy) Li

Abstract: We run a series of controlled field experiments on eBay where buyers are rewarded for providing feedback. We show that buyers respond to rewards by providing feedback more frequently, though the price of such feedback is expensive and the statistical effect is marginal. In addition to providing feedback more frequently, buyers are also more generous: the fraction of positive feedback increases when feedback is rewarded (even though the reward applies to any form of feedback). The distortionary effect of feedback reward is particularly noticeable when shipping is delayed: buyers fail to review a transaction that they would otherwise review and rate positively. Finally, our data suggests that buyers bid higher in anticipation of a feedback reward, but the bid increase in smaller than the reward.

The Effect of Beijing’s Driving Restrictions on Pollution and Economic Activity

Brian Viard and Fu Shihe

Abstract: In an effort to improve air quality leading up to the 2008 Olympics, the Beijing government instituted driving restrictions based on license plate numbers. Although less stringent post-Olympics, the restrictions remain in place. Using daily pollution data from multiple monitoring stations, we find a 27% decrease in air pollution from every-other-day and a 16% decrease from one-day-per-week restrictions. Our evidence relies on both time-series and spatial variation using both boundary discontinuity design and differences-in-differences methods, making alternative explanations unlikely. We offer possible reasons why Beijing’s restrictions have been effective (in the short-run) in contrast to experiences in other cities. In particular, we find strong evidence of compliance based on parking garage entrance records. Since we are unable to observe work hours directly, we rely on observed consumption of a major substitute – leisure time spent viewing television – to determine the effects of the commuting restrictions on economic activity. Using hour-by-hour data, we find that television viewership increases for workers with discretionary labor supply and almost exclusively during the hours of the driving restrictions. For those with fixed work hours we find a shift in the timing of viewership consistent with changes in commute patterns to comply with the driving restrictions but no significant change in overall viewership. Our results are consistent with a decrease in labor supply due to increased commuting costs for those with endogenous short-run labor supply.

Product Innovation in Vertically Related Industries

Ping Lin and Wen Zhou

Abstract: We compare a downstream firm's incentive to invent a new input under vertical separation and vertical integration. Similar to the replacement effect in horizontal settings, innovation by a vertically integrated firm replaces its current upstream business. Innovation by a vertically separate firm leads to dramatic changes to the vertical market structure: It generates an integration effect as well as a relationship-reversal effect when the innovating firm's downstream rival is integrated. Unlike the case of horizontal mergers, unambiguous results are obtained on the effect of vertical mergers. In particular, we show that vertically integration always reduces the merging firm’s R&D incentive, but enhances the R&D incentive of non-integrating firm.

Product Line Rivalry: A Further Analysis

Zhihong Chen and Zhiqi Chen

Abstract: In this paper we conduct a further analysis on the Brander and Eaton (1984) model of product line rivalry by examining two cases that have not been studied previously. The common feature shared by these two cases is asymmetry between firms. Specifically, we examine situations where either a) the firms have different marginal costs, or b) they choose quantity sequentially. Our analysis shows that each of these asymmetries between firms can lead to market interlacing in equilibrium.

Exclusionary Contracts

Ran Jing and Ralph A. Winter

Abstract: When do participants in a market have the incentive to enter into agreements that exclude potential entrants? This paper synthesizes, >extends and applies the theory of exclusionary contracts. In a model of >incumbent contracts with downstream buyers, a "Chicago benchmark" yields no incentive for exclusionary long term contracts. Departures from the benchmark in each of three directions yield predictions of exclusion. These include the two existing theories (Aghion-Bolton 1987 and Rasmusen-Ramseyer- Wiley 1991) as well as a third, vertical theory: that a long term contract at one stage of a supply chain may extract rents at another stage. Contracts with upstream suppliers can also be exclusionary, but do not necessarily yield a first-mover advantage for the incumbent. We consider upstream contracts in which firms bid simultaneously for the rights to upstream inputs, with bids for exclusive rights being an available strategy, and then compete in a downstream market. With sufficient complementarity upstream and substitutability downstream, the bidding game equilibrium allocates all inputs to a single firm, excluding the other firm from the market. We examine an antitrust case that illustrates all four channels for exclusionary contract incentives.

Procurement, Cost Reduction, and Vertical Integration

Simon Loertscher and Michael Riordan

Abstract: In a procurement environment in which cost minimization requires equal investments by symmetric suppliers, a vertical acquisition raises expected costs by distorting sourcing decisions in favor of the integrated supplier. Additionally, in an environment in which investment reduces expected costs, leaving unaltered the distribution of residual cost, and the marginal cost of investment rises sufficiently quickly, such vertical integration also reduces total investment in cost reduction. Despite these cost inefficiencies, there are private incentives for vertical integration to reduce expected procurement cost. In contrast, when cost minimization requires asymmetric investment levels, vertical integration can be more efficient than non-integration and may arise endogenously as the outcome of an acquisition game.

与会嘉宾简介

Mark Armstrong,

英国伦敦大学学院经济学教授和 ESRC 研究中心主任。Armstrong 教授是英国皇家科学院院士和国际计量经济学学会（Econometric Society）院士。他是国际顶尖杂志 RAND Journal of Economics 的主编和 Review of Economic Studies 编委会主席。

陈勇民

美国科罗拉多大学经济学终身教授及 Stanford Calderwood 讲席教授，并担任浙江大学教育部长江讲座教授，以及上海财经大学和复旦大学管理学院兼职教授。此外，陈勇民教授现还担任国际权威期刊 International Journal of Industrial Organization 的共同主编，以及 European Economic Review 和 Quantitative Marketing and Economics 副主编。 他还曾担任 Journal of Industrial Economics 副主编以及 Canadian Journal of Economics 编委。

陈智琦

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Jay P. Choi

美国密西根州立大学经济系终身教授及澳大利亚 New South Wales 大学教授。 Choi 教授现担任国际权威期刊 International Journal of Industrial Organization 的共同主编。

李玲芳

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秦成忠

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Patrick Rey

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Michael Riordan

美国哥伦比亚大学经济学系系主任，经济学终身教授及 Laurans A. and Arlene Mendelson 讲席教授。Riordan 教授是国际计量经济学学会院士。他曾担任国际顶尖期刊 RAND Journal of Economics 主编，American Economic Review 编委, Quarterly Journal of Economics 副主编. 他还曾兼任美国联邦通信委员会首席经济学家以及美国联邦贸易委员会经济顾问。

Tom Ross

加拿大不列颠哥伦比亚大学 SAUDER 商学院常务副院长，经济学终身教授及 UPS Foundation 讲席教授，并任 Phelps 研究中心主任。二十多年以来，Ross 教授一直是 UBC 大学夏季产业组织会议的主席，并担任许多重要公共部门及知名企业的顾问。

宋顺峰

美国内华达大学经济系终身教授以及浙江大学教育部长江讲座教授。宋教授是中国留美经济学会的前会长，是国际权威期刊 China Economic Review 的编委。宋教授还担任北京大学-林肯研究院城市发展与土地政策研究中心客座研究员，北京大学中国公共财政研究中心客座研究员，中国人民大学商学院客座教授，上海财经大学公共管理学院兼职教授，

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美国南加州大学经济系终身教授，上海财经大学国际工商管理学院院长，教育部长江讲座教授。另外，谭教授还是加拿大 Delta Economics Group 咨询公司的高级顾问，并曾担任加拿大商业竞争局 T.D. MacDonald Chair in Industrial Economics。谭教授现还担任国际权威期刊 International Journal of Industrial Organization 的副主编。他还曾担任国际顶尖期刊 International Economic Review 的副主编。

陶志刚

长江商学院教授以及香港大学经济工商管理学院教授，副院长。与此同时，陶教授还是密歇根大学戴维森研究所的研究员，复旦大学客座教授以及香港的经济战略研究所“亚洲竞争力计划”联席主席。

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