

Economics of Regulation

INSTRUCTORS

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AIM

Regulatory and pro-competitive policies have in recent years become increasingly important in the EU strategy. The achievement of a single market has been fundamental and, in many ways, the centrepiece, from the economic point of view, of the EU. The deregulatory and liberalization processes ongoing in most European countries have been pushed and harmonized by European Directives. On the other side, the EU Institutions (both the EU Commission and the ECB) have repeatedly asserted the centrality of structural reforms for both the viability of the budgetary adjustment and the stability of the Monetary Union.

The course rests on the fundamental concepts in Industrial Economics to examine optimal regulatory policies. These theoretical foundations are then used to illustrate and to evaluate the structural reforms policies taking place also at EU level. Some recent reforms and organizational innovations in utilities and infrastructure industries will be discussed. A thorough knowledge of these policies is essential for anyone willing to work within the EU Institutions.

SYLLABUS

1. Background: Introduction to Industrial Organization

Oligopoly, monopoly, competition

- Motta, M. (2004), *Competition Policy*, Cambridge University Press - chapter 8
- Any of the following two books on IO covers the same material:
 - Carlton, D., and J. Perloff (2005), *Modern Industrial Organization*, Pearson
 - Cabral, L. (2000), *Introduction to Industrial Organization*, The MIT Press

2. Economic regulation

Market failures: Normative theory of regulation

- Viscusi, Harrington and Vernon (2018), *Economics of regulation and antitrust*, 2nd edition, The MIT Press - chapter 10

Capture theory and economic theory of regulation

- Viscusi, Harrington and Vernon (2018), *Economics of regulation and antitrust*, 2nd edition, The MIT Press - chapter 10

Competition and welfare

- Motta, M. (2004), *Competition Policy*, Cambridge University Press - chapter 2, no advanced materials

Natural Monopoly

- Viscusi, Harrington and Vernon (2018), *Economics of regulation and antitrust*, 2nd edition, The MIT Press - chapter 11

Market design

- OECD (2001), *Restructuring Public utilities for competition*, available at: <http://www.oecd.org/dataoecd/6/60/19635977.pdf>

Price regulation and rate-of-return regulation

- Viscusi, Harrington and Vernon (2018), *Economics of regulation and antitrust*, 2nd edition, The MIT Press - chapter 11

Price caps

- Armstrong, M, S. Cowan and J. S. Vickers (1994), *Regulatory Reform. Economic Analysis and British Experience*, The MIT Press, chapter 6

3. Theoretical underpinnings of economic regulation. Some alternatives

Principles of regulation for core network activities in public utilities

1. Public utilities industry structures
2. Pricing principles under full information: marginal cost pricing; average cost pricing; non-linear pricing; Ramsey-Boiteux pricing and constant mark-ups; peak-load pricing
3. A little bit on regulation under imperfect information
 - Decker, C. (2015), *Modern Economic Regulation. An Introduction to Theory and Practice*, Cambridge University Press, Cambridge - chapter 4

Two alternatives to traditional regulation

1. Competition for the market
2. *Ex post* competition law
 - Decker, C. (2015), *Modern Economic Regulation. An Introduction to Theory and Practice*, Cambridge University Press, Cambridge - chapter 2

4. Organizational innovation in the delivery of public services

Public-private partnerships

- de Bettignies, J.-E., and T.W. Ross (2004), “The Economics of Public-Private Partnerships,” *Canadian Public Policy*, vol. XXX(2), 135-154
- Iossa, E., and S. Saussier (2018), “Public-private partnerships in Europe for building and managing public infrastructures: an economic perspectives,” *Annals of Public and Cooperative Economics*, 89(1), 25-48
- Jin, H., and I. Rial (2016), *Regulating Local Government Financing Vehicles and Public-Private Partnerships in China*, IMF Working Paper, WP/16/187, available at <https://www.imf.org/external/pubs/ft/wp/2016/wp16187.pdf>

EXAM

There will be a written examination. Candidates will be required to answer an open question as well as five multiple-choice questions. The exam will last 120 minutes. No material will be allowed for consultation during the exam.