

## Regulatory Economics: Advanced Topics

*Alberto Cavaliere*

This optional short course, for second year Students of the Ph.D. in Economics, analyzes the basic theory concerning the regulation of natural monopoly, and considers extension to Regulation with asymmetric information.

Regulation with asymmetric information is built on the contribution of Loeb-Magat (1979) and Baron Myerson (1982). The latter also represent a cornerstone to the theory of mechanism design. Further advancements include especially Laffont and Tirole (1986), though the literature on the topic is now really huge.

The Course schedule includes firstly traditional lectures by the teacher, in order to introduce students to the theory of regulation. Then the teacher will present a couple of his papers devoted to extension to the regulation of the natural gas industry and the water industry. The aim of this second part of the short course is twofold: not only will students learn how some results can be extended and reconsidered when accounting for specific features of different industries but can also be trained about research methodology and “paper building” skills. Finally students will be asked to present a paper in class.

### Basic references

The contribution by Paul Joskow (2006) “The Theory of Natural Monopoly” included in the *Handbook of Law and Economics* will continue to be the basic reference for the Course.

Some further (but not exhaustive) references include papers to be suggested for class presentations:

Baron D. and R. Myerson (1982) “Regulating a Monopolist with Unknown Costs”, *Econometrica*, 50:4, 911-930

Laffont, J.J. and J.Tirole (1986) “Using Cost Observations to Regulate Firms” *Journal of Political Economy*, 94:3 614-641

Loeb M. and W. Magat (1979) “A Decentralized Method for Utility Regulation” *Journal of Law and Economics*, 22:2 399-404