

Regulatory Economics: Advanced Topics

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This optional short course, for second year Ph.D. Students at LASER, builds on the previous year introduction to the Regulation of Natural Monopolies, given within the first-year Course of Public Economics. In the latter it was just possible to analyze the basic theory concerning the regulation of natural monopoly, and only regulation with perfect information was considered. This proposal then concerns extensions to two main topics: 1) Regulation with asymmetric information 2) Access pricing regulation.

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. Access pricing regulation has also received a lot of attention by economic theory after the widespread introduction of liberalization in telecommunication and energy markets, formerly characterized by vertical integration.

The Course schedule includes firstly traditional lectures by the teacher, in order to introduce students to the theory of regulation with asymmetric information and access pricing. 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 can 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:

Amstrong, Doyle and Vickers (1996) “The Access Pricing Problem: A Synthesis”. *Journal of Industrial Economics*, 44(2): 131-150

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

Baumol, W. and G. Sidak (1994) “The Pricing of Inputs Sold to Competitors” *Yale Journal on Regulation* 11:1 171-202

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

