UNIVERSITÀ
DEGLI STUDI DI MILANO-BICOCCA

COURSE SYLLABUS

Service Economics

2324-1-F6302N060-F6302N005M

Learning objectives

The course intends:

a) to offer basic and specialist knowledge about **Reasons, Tools and Effects of public intervention** in the markets of contemporary capitalist societies characterized by non-competitive conditions and strong market power in favor of private firms.

b) to enable the student to **critically evaluate the policies of reduction of the aforementioned intervention** followed in various countries over the past three decades and to analyze the effects of the consequent elimination or privatization of the activities previously carried out by the public sector.

c) to allow the student to acquire professional skills in the **planning and management of still existing public enterprises** still offering public services

Contents

Public and Service Economics is dedicated to the study of the theory of business and market regulation in the public utility sectors where conditions of natural monopoly prevail. Economic theories that have dealt with this problem will be presented and discussed following their historical development and the relative results will be examined with reference to contexts characterized by both perfect information and information asymmetry. The theories that motivate the nationalization of natural monopolies and the theories that merely reccommend regulatory rules of conduct to be imposed on private companies will be exposed and analysed. In the latter case, the study will cover both the Bayesian and the non-Bayesian (or anonymous) models of regulation of the natural monopoly.The main oligopoly models will be subsequently taken up and the most common forms of regulation of these markets will be examined. Ample space will be dedicated to the analysis of the so-called competition for the market achieved through the application of auction mechanisms. In this context, specific cases of application of

auction mechanisms to the regulation of sectors such as electricity, gas, telecommunications, etc. will also be treated.

Detailed program

L1 Allocation efficiency and perfect competition I

L2 Allocation efficiency and perfect competition II

L3 Perfect competition and efficient allocation

L4 Natural Monopoly I

L5 Natural Monopoly II

L6 Multiproduct Natural Monopoly

L7 Returns to scale and sub-additivity

L8 Prices equal to MC and loss in the firms' balance sheet

L9 The Hotelling model I

L10 The Hotelling model II

L 11 Non-distortionary forms of financing the subsidy

L12 PROS and CONS of FB pricing

L 13 The Second Best approach

L14 SB prices I

L15 The correction of SB prices for distribuitional purposes

L16 Alternative and complementary interpretations of SB prices

L17 The Loeb and Magat model

L18 The introduction of uncertaint in FB and SB pricing.

L19 The peack-load pricing

L20 Peack-load, stocastic demand and rationing

L 21 Non- Bayesian regulation. Introduction.

L22 RoR regulation I

L22 RoR regulation II

L23 Price -cap

L24 Yardstick competion and applications

L25 Other regulatory schemes

L 26 Baysian models of regulation and principal-agent

L27 Baron-Myerson

L28 Laffoint-Tirole

L29 Demzets auction regulation and the Loeb and Magat model

L24 Auction theory I

L 25 Auction theory II

L26 Auction theory III

L27 Application Auctions to public franchise

L28
Application of Auctions to market design; various cases.

L 29 A (very) critical review of auction mechanisms and applications

L 30 Oligopoly and regulation

L 30 Cournot I basic model

L 31 Cournot II

L32 Counot with N> 2

L 33 Bertrand I

L 34 Bertrand with N> 2

L 35 Social surplus in Oligopoly I

L 36 Public intervention in Oligopoly

IL 37 Vertical integration I

L 38 Vertical Integration II

L 39 Alternatives to vertical integration

L 40 Horizontal Mergers I

L 41 Efficiency gains

L 42 Unilateral effects

L 43 Cases of Antitrust I

L 44 Cases of Antitrust II

L 45 Cases of Antitrust III

L46 Cases of Antitrust IV

L47 Privatization in theory and practice

L48 Privatization and social impoverishment

L49 Should we re-nationalise previously privatized Public Utilities?

Prerequisites

Basic microeconomics as presented for instance in

H. Varian, Intermediate Microeconomics with Calculus, W. W. Norton & Company – 2014

is necessary.

Calculus and optimization are highly recommended

Teaching methods

Class lectures in presence and on line. Exercises

Assessment methods

Written final exam (3 questions of which 2 exercises) at the end of the term and before the beginning of the next module. Detailed arrangements: to be defined

Textbooks and Reading Materials

- Bruno Bosco, **LEZIONI DI TEORIA DELLA REGOLAMENTAZIONE (Lectures on Regulation Theory)**, Second Edition, Giappichelli, Turin, 2020 (except the paragraphs indicated with double asterisk)
- M. Motta -M. Polo, **Antitrust. Economia e politica della concorrenza** (Antitrust and competition policy), Il Mulino, 2005 (chapters to be indicated at the beginning of the second module)
- Bruno Bosco, **Additional Lecture Notes** (Material included in the e-learning page of the course)

Semester

First Term

Teaching language

Italian

Sustainable Development Goals

NO POVERTY | GOOD HEALTH AND WELL-BEING | QUALITY EDUCATION | AFFORDABLE AND CLEAN ENERGY | REDUCED INEQUALITIES | RESPONSIBLE CONSUMPTION AND PRODUCTION