

Master in Economics
Universidad Torcuato Di Tella

THEORY OF REGULATION

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Summary

Why the electricity price has to vary during the year? What happens when the rate of return of a monopolistic firm is regulated? Why is inevitable that private monopolies have to earn profits? What price should France Telecom pay so that a call originated in its network arrives in British Telecom's? What does the "regulatory capture" means?

These are some questions that naturally emerge when someone considers the issue of regulation. The goal of this course is to present some theoretical contributions that enable to analyze regulatory issues in a rigorous way.

1. Introduction

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Spulber, D. (1988) *Regulation and Markets*, MIT Press, Chapters 1 and 2.

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2. Conventional theory of regulation

Natural Monopolies

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Pricing of a public enterprise under a budget constraint

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Regulation of the rate of return of capital

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Peak-load pricing

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3. Regulation under asymmetric information

Bayesian Games

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Mechanism design and adverse selection

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Mas-Collel, A., Whinston, M. and Green, J. (1995) *Microeconomic Theory*, Oxford University Press.

Optimal regulation under asymmetric information

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Shleifer, A. (1985) "A theory of yardstick competition", *RAND Journal of Economics*, **16**: 319-327.

4. Applications of the theory of regulation under asymmetric information to telecommunications

The problem of by-pass

Curien, N., Jullien, B. and Rey, P. (1998) "Pricing regulation under by-pass competition", *RAND Journal of Economics*, **29**: 259-279.

Laffont, J.-J. and Tirole, J. (1990) "Optimal bypass and cream-skimming", *American Economic Review*, **80**: 1042-1061.

Interconnection

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5. Capture of regulators

Chicago School

Becker, G. (1983) “A theory of competition among pressure groups for political influence”, *Quarterly Journal of Economics*, **98**: 371-400.

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Toulouse school

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