

INDUSTRIAL ORGANIZATION
(Procuring and Regulating Public Services)
European Economy and Business Law
Academic year 2015-2016



6 credits

Teaching mode: a combination of frontal lectures and independent group work.

Lectures for the first 4 weeks. In the last week of the course, the lectures will not take place and the hours will instead be devoted to a group project (more information below)



LECTURER

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Office hours: to be agreed by email

Elisabetta Iossa is Professor of Economics at the University of Rome 'Tor Vergata', Research Fellow of the Center for Economic Policy Research (CEPR) in London, and IEFE-Bocconi. She studied in Napoli, University of York and Université Libre de Bruxelles, and worked in London at Brunel University for ten years. Her main research interests are in the provision of public services, public procurement and public-private partnerships. On these topics, she has advised many international institutions such as Competition Commission, Financial Service Authority, Office of Fair Trading, International Fund for Agricultural Development and World Bank. Her main publications and further details are available on <https://sites.google.com/site/profelisabettaiossa/>

PROGRAM

This course covers a selection of topics in industrial organization, devoting most attention to procurement and competition issues.

We discuss procurement of public services. Using the economic theory of contracts and incentives, we discuss the incentives of public and private parties in the provision of public services, with a special focus on Public-Private Partnerships. We discuss how tenders and contracts should be strategically designed so as to provide correct incentives, how user tariffs should be regulated, and which tools should be used to fight bid rigging in procurement. A number of case studies are discussed, covering sectors such transport, prisons, students accommodations.

We discuss competition policy issues related to the possibility that firms engage in anti-competitive behaviour to raise their market power. Using the theory of oligopoly and of repeated games, we analyse the main factors that affect the sustainability of collusive agreements among market participants. Practical case studies illustrate the theory and its application.

Students interested in these topics can apply to undertake a stage ("tirocinio curriculare") at Proxenter, the Center of Research in Procurement and Supply Chain (www.proxenter.it). The stage can be undertaken PT whilst attending classes and preparing for the exams.

ASSESSMENT: Exam and Assignment

The final assessment comprises a project (30% weight) and a final exam (70% weight).

The exam is mainly written and it lasts one hour. Questions may be constituted by mathematical exercises, a discussion of an article chosen among those in the reading list, or by a set of simple short questions. Under the discretion of the teacher, there may be an oral exam.

Students who attend the course must submit a project by 20th December 2015 which can be undertaken jointly by a group of up to 3 students and it will be considered as part of the

January/February exam session. When submitting the project all group members must sign a declaration stating the contribution (in percentage) of each single project member. The project will have a weight of 30% and the exam mark 70%, conditioned on the project mark being higher than the exam marks. If the project mark is lower than the exam mark, the final mark will be 100% exam based.

Students who take the exam in other exam sessions can voluntarily submit an individual project at the latest one week before the exam. The project cannot be carried over to other exam sessions. The project will have a weight of 30% and the exam mark 70%, conditioned on the project mark being higher than the exam marks. If the project mark is lower than the exam mark, the final mark will be 100% exam based.

Students who do not submit the project will be assessed 100% on the exam.

The project will be on a case study of market collusion, searching for information on the European Commission Website, the Italian AGCM or the UK Competition Commission. Instructions on the project are given in the handout on Collusion.

Students found copying or talking during the exam will have their exam withdraw and will be registered as “Respinto” on their official transcript. Note that we have software able to spot if projects are copied off the internet.

LECTURES

- **In house Provision vs Outsourcing of Public Services**

- Incomplete contracts
- Hart , Shleifer & Vishney (1997)

Reading

- Hart , Shleifer & Vishney (1997)

- **Providing Incentives to Private Contractors**

- Explicit contracts (fixed price, cost plus and incentive contracts)
- Implicit contracts and relational contracts: the importance of reputation
- Time incentives

Reading

Albano, Calzolari, Dini, Iossa & Spagnolo (2006)

Lewis, and P Bajari (2011)

- **Public Private Partnerships (PPP)**

- Main characteristics
- PPPs vs traditional procurement
- Risk allocation in PPPs
- Case studies:
 - London Underground;
 - Prisons;
 - Students accommodations

Reading

Bennett & Iossa (2006)

Iossa & Martimort (2014)

- **Tariff Regulation of Public Services**

- Price cap
- Rate of returns Regulation

Reading:

Sappington (2000)

- **Tender Design and Bid rigging**

- Incentives to Collude
- Award Criteria
- Division in Lots
- Bid rigging: red flags
- Case studies

Reading:

Dini F., Pacini R., Valletti (2006)

Grimm Pacini Spagnolo Zanza (2006)

Kovacic, Marshall, Marx and Raiff, (2006)

OECD (2009)

- **Collusion:**

- What makes collusion attractive and sustainable
- Factors that affect the sustainability of collusion
- Case studies

- **Home assignment: a case study on collusion**

Reading

Motta (2004), Chapter 4.

READING

- Albano, GL. Calzolari, G. Dini, F., Iossa, E, Spagnolo G. (2006) "Procurement Contracting Strategies". Handbook of Procurement, Capitolo 4, N. Dimitri, G. Piga, and G. Spagnolo, eds., Cambridge University Press. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=908220
- Bennett, J. Iossa, E. (2006) "Building and Managing Facilities for Public Services". The *Journal of Public Economics*, vol. 90 (10-11), pp. 2143-2160.
- Hart, O., Shleifer, A. and Vishny, R. W. (1997), 'The proper scope of government: theory and an application to prisons,' *Quarterly Journal of Economics*, 112: 1119-58.
- Iossa E., Martimort, D. (2014)_ "The Simple Micro-economics of Public Private Partnerships". *Journal of Public Economic Theory*.
- Kovacic, E, K. Robert C. Marshall, Leslie M. Marx and Matthew E. Raiff, (2006) Bidding rings and the design of anti-collusive measures for auctions and procurement.

- Lewis, and P Bajari (2011) Procurement Contracting With Time Incentives: Theory and Evidence, *Quarterly Journal of Economics*, 126 (3): 1173-1211.
- Motta Massimo (2004), Competition Policy, Cambridge University Press.
- OECD (2009), Guidelines on Fighting Bid Rigging in Public Procurement, OECD (can also look at OECD (2012), Recommendation on Fighting Bid Rigging in Public Procurement)
- Sappington, D. (2000), Price Cap Regulation and Incentives, Handbook of Telecommunication Economics, Ed. Martin Cave, Sumit Majumdar, and Ingo Vogelsang.