

Economics 477 (L01) (Regulatory Economics)

Instructor: Aidan Hollis
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Lecture Location: EDC280
Lecture Days/Time: MWF 9:00-9:50

Office: SS 334
Office Hours: M 10-11 or by appointment
Winter 2023

Course Description:

The objective of this course is to introduce regulatory economics, defined as price and entry regulation. Price and entry regulation occur when the state restricts who can provide services and approves the terms (price, quality, product variety etc.) of service. The course will consider four broad topics: (i) Why regulate? (ii) How should firms/industries be regulated? (iii) How are firms actually regulated? and (iv) a discussion of the costs and benefits of deregulating. There will be a focus on the regulation and structure of the Alberta Interconnected Electric System (AIES), regulation of pipelines, and regulation of pharmaceutical prices. Students will write an original term paper on a regulatory scheme, as a key part of the course.

Course Learning Outcomes:

Students who successfully complete this course will:

- 1) Understand and appreciate the history, rationale, and functioning of regulatory institutions. This involves having some familiarity with the regulation and institutions in a number of sectors, including:
 - Electricity in Alberta.
 - Drug price regulation.
 - Pipelines in Canada.
- 2) Understand and appreciate key principles, theories and ideas in the regulatory economics literature including:
 - The rationale for regulation encompassing both public interest justifications and the economic theory of regulation. The public interest justification focuses on how the intersection of natural monopoly technology and transaction costs provides a rationale for efficiency enhancing regulation. The economic theory of regulation views regulation and its institutions as the result of political pressure to allocate the government's coercive power to create and redistribute rents.
 - Rate making principles, including Ramsey pricing and nonlinear pricing.
 - Regulatory risk, stranded costs, and incentives to invest.
 - The effect of asymmetries of information on regulation.
 - The costs and benefits of vertical integration.

- The effect of regulation on innovation
- 3) Be able to apply the key principles in the regulatory literature to analyse, critique, and craft regulatory institutions, processes, and policies.
 - Assess the strengths and weaknesses of different regulatory policies.
 - Assess the strengths and weaknesses of different regulatory institutions.
- 4) Develop skills in researching, writing, and presenting analysis of regulatory issues.

Course Outline:

- Why Regulate? The Rationale for Regulation and Theories of Regulation
- Optimal Pricing of Natural Monopoly
- Regulation Under Asymmetric Information
- Regulatory Regimes
- Access Pricing
- Regulation in Practice (Electricity, Pipelines, and Pharmaceuticals)

Prerequisites/corequisites:

ECON 471

Required Textbook(s):

Jeffrey Church and Roger Ware. *Industrial Organization: A Strategic Approach*, Irwin/McGraw Hill, 2000.
(available online at https://works.bepress.com/jeffrey_church/23/)

Connecting with the instructor:

I will provide a detailed schedule of readings and dates in the first week of classes. Generally I find email a pretty convenient way of addressing questions – don't hesitate to drop me a line if you have questions or other issues crop up. And similarly, if the office hours time doesn't work for you, not a problem: drop me a line and we can set up another time.

Photo:

Students should provide a digital photo of their face with their preferred name at the beginning of term to enable me to connect names to faces. Exemptions may be granted for religious reasons.

Lecture Recordings:

The lectures will be recorded and made available simultaneously on zoom and as a recording. However, it is expected that students will normally attend class and participate in class discussions.

Books on Reserve:

The list of reserve titles, if any, is posted at the course D2L site.

Desire2Learn:

This course will make use of the Desire2Learn (D2L) platform. Students who are registered in the course can log on at <http://d2l.ucalgary.ca> through their student centre. Please note that D2L features a class e-mail list that may be used to distribute course-related information. These e-mails go to your University of Calgary e-mail addresses only.

Grade Determination:

Mid-Term Examination	10%
Term Paper	35%
Term Paper Presentation	5%
Term Paper Lit Review	5%
Term Paper Proposal	5%
Term Paper Draft	5%
Final Examination	<u>35%</u>
	100%

Examination Details:

Tests and exams will not involve multiple choice questions.

Programmable calculators, cellphones, textbooks, course notes, and other electronic devices will not be allowed during the writing of tests or final examinations. Students are reminded that simply being able to access their cellphone during an exam is academic misconduct.

The in-class midterm will be on February 27 2023.

Grading Policies:

The official grading system will be used. See <http://www.ucalgary.ca/pubs/calendar/current/f-1-1.html>.

Students must receive a passing grade on the final exam to pass the course. Students committing academic misconduct during the final exam will not receive a passing grade for the course.

If a student's letter grade on the final exam exceeds their midterm(s) letter grade, the weight of the midterm(s) is (are) transferred to the final exam. The student must have written the midterm(s) or provided supporting documentation for the absence(s). For Winter 2023 the University has suspended the requirement for supporting documentation. Instructors cannot currently ask students for documentation to support absences.

As per the Writing Across the Curriculum Statement in the Calendar, writing and grading thereof will be a factor in the evaluation of student work. See <https://www.ucalgary.ca/pubs/calendar/current/e-2.html>.

Any student work which remains undistributed after the last day of classes will be available to students through the instructor's office during the instructor's office hours.

The final examination will be comprehensive, scheduled by the Registrar, held in a classroom, and last 2 hours. If a student cannot write their final exam on the date assigned by the Registrar's Office, they need to apply for a deferred exam <https://www.ucalgary.ca/pubs/calendar/current/g-6.html>. Under no circumstance will this be accommodated by the Department.

THERE WILL BE NO MAKEUP OR DEFERRED QUIZZES/TESTS/EXAMS under any circumstances, nor may the quizzes/tests/exams be written early. Students unable to write the quizzes/tests/exams because of

documented illness, family emergency, religious observance, or university-sanctioned event will have the weight shifted to the final examination; otherwise a grade of zero will be assigned.

Reappraisal of Grades:

For Reappraisal of Graded Term Work, see Calendar I.2

<http://www.ucalgary.ca/pubs/calendar/current/i-2.html>

For Reappraisal of Final Grade, see Calendar I.3

<http://www.ucalgary.ca/pubs/calendar/current/i-3.html>

Academic Misconduct and Intellectual Honesty:

Academic Misconduct refers to student behavior that compromises proper assessment of students' academic activities and includes: cheating; fabrication; falsification; plagiarism; unauthorized assistance; failure to comply with an instructor's expectations regarding conduct required of students completing academic assessments in their courses; and failure to comply with exam regulations applied by the Registrar.

Statement of Intellectual Honesty, see Calendar K.4

<https://www.ucalgary.ca/pubs/calendar/current/k-3.html>

Plagiarism and Other Academic Misconduct

<https://ucalgary.ca/student-services/student-success/learning/academic-integrity>

Academic Accommodations:

Students seeking an accommodation based on disability or medical concerns should contact Student Accessibility Services. SAS will process the request and issue letters of accommodation to instructors. Students who require an accommodation in relation to their coursework based on a protected ground other than disability should communicate this need in writing to their Instructor. The full policies on Student Accommodations are available at <https://www.ucalgary.ca/legal-services/sites/default/files/teams/1/Policies-Accommodation-for-Students-with-Disabilities-Procedure.pdf> and <https://www.ucalgary.ca/legal-services/sites/default/files/teams/1/Policies-Student-Accommodation-Policy.pdf>.

Freedom of Information and Protection of Privacy (FOIP) Act:

Personal information is collected in accordance with FOIP. Assignments can only be returned to the student and will be accessible only to authorized faculty and staff. For more information, see <https://www.ucalgary.ca/legal-services/sites/default/files/teams/1/faq-privacy-faculty-members.pdf> and <https://www.ucalgary.ca/legal-services/sites/default/files/teams/1/faq-privacy-students.pdf>

Internet and Electronic Communication Device information:

The use of cell phones for any purpose in class is prohibited. Computers and tablets may be used for note taking only unless otherwise authorized by the instructor.

Copyright Legislation:

See the University of Calgary policy on Acceptable Use of Material Protected by Copyright at <https://www.ucalgary.ca/legal-services/sites/default/files/teams/1/Policies-Acceptable-Use-of->

[Material-Protected-by-Copyright-Policy.pdf](#). Students who use material protected by copyright in violation of this policy may be disciplined under the Non-Academic Misconduct Policy.

Recording of Lectures:

Recording of lectures is prohibited, except for audio recordings authorized as an accommodation by SAS or an audio recording for individual private study and only with the written permission of the instructor. Any unauthorized electronic or mechanical recording of lectures, their transcription, copying, or distribution, constitutes academic misconduct. See <https://www.ucalgary.ca/pubs/calendar/current/e-6.html>.

Instructor Intellectual Property:

Course materials created by instructors (including presentations and posted notes, labs, case studies, assignments and exams) remain the intellectual property of the instructor. These materials may NOT be reproduced, redistributed, or copied without the explicit consent of the instructor. The posting of course materials to third party websites such as note-sharing sites without permission is prohibited. Sharing of extracts of these course materials with other students enrolled in the course at the same time may be allowed under fair dealing.

Important Dates:

Please check: <http://www.ucalgary.ca/pubs/calendar/current/academic-schedule.html>.

Student Organizations:

Faculty of Arts Students' Association (F.A.S.A.):

Economics Department Representative

Office: SS 803, E-mail: econrep@fasaucalgary.ca and Web: www.fasaucalgary.ca.

Society of Undergraduates in Economics:

<https://www.ucalgarysue.com/>.

Society of Undergraduates in Economics is a student run organization whose main purpose is to assist undergraduate economics students to succeed both academically and socially at the University of Calgary. Services include access to the exam bank, career events such as Industry Night and information sessions, mentorship programs, and social events for members. They invite you to join by contacting SUE at sue@ucalgarysue.com.

Faculty of Arts Program Advising and Student Information Resources:

- Have a question, but not sure where to start? The Arts Students' Centre is your information resource for everything in Arts! Drop in at SS102, call them at 403-220-3580, or email them at artsads@ucalgary.ca. You can also visit the Faculty of Arts website at <http://arts.ucalgary.ca/undergraduate> which has detailed information on common academic concerns, including program planning and advice.
- For registration (add/drop/swap), paying fees and assistance with your Student Centre, contact Enrolment Services at 403-210-ROCK [7625] or visit them in the MacKimmie Library Block.

Student Support and Resources:

- See <https://www.ucalgary.ca/registrar/registration/course-outlines> for information on campus mental health resources, the Student Ombuds' Office, Student Success Centre, Safewalk, and Emergency Evacuation and Assembly.
- Online writing resources are available at <https://ucalgary.ca/student-services/student-success/writing-support>.

Notes:

1. Students are responsible for all assigned material, e.g., supplementary material posted on D2L, regardless of whether or not the material was covered in class.

AMH

2022-11-20