

University of Pennsylvania
The Wharton School

Fall 1995

PPMT 207/787

THE ECONOMICS OF GOVERNMENT REGULATION OF BUSINESS

Vance 104-5, T - Th, 1:30 - 3:00 pm

Professor Faulhaber

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Office Hours: Mon and Wed, 12:10-1:30 pm, and by appointment

The course offers a detailed and critical examination of deregulation and continuing regulatory problems in three areas of the US. economy; financial services (e.g., banks, S&Ls), telecommunications, and cable television. Students will be required to study materials from the selected books, a bulk pack, and other related materials. Classes will emphasize discussion and individual students will be asked to lead some to the sessions.

Required book: *The Future of Banking* James L. Pierce, Yale University Press, 1991.

A bulkpack is required, and is available from Wharton Reprographics.

Required assignments:

Midterm examination: 20% of grade

Final examination: 30% of grade

Class participation: 15% of grade

Summaries & Analyses: many of the class assignments include one reading for which you are required to hand in a **one-page summary and analysis**. This reading is marked "**S&A**" in the syllabus. The format of this S&A is:

Your name: _____ Date & Class: _____

Name of Reading: _____

Topic/Problem Addressed by Reading: (2-3 sentences)

Summary of Conclusions and Results: (1 short paragraph)

Your analysis and critique of the Topic/Problem and the author's conclusions: focus on lessons for management (1 long paragraph). What I want to see here is the value that you can add, over and above that of the author.

Under no circumstances is this document to exceed one page, and late assignments are not accepted. If you are unable to make class on the date the assignment is due, you may have a friend hand it in, either in class or in my office, you may fax it to me, or you may send it by e-mail. Joint work is not acceptable. The purpose of this exercise is for you to demonstrate your competence in (i) the use of the concepts of the course; (ii) reasoned analysis and critique, expressed in succinct business prose; and (iii) most important, your ability to *add value* take the analysis further and deeper, add your own insights, relate it to knowledge from your personal experience or other classes, etc. These assignments will be graded as follows:

+ = great job; you contributed excellent insights

✓ = you understood the assignment and reported it accurately

- = you missed the point of the assignment.

Collectively, these "S&A" assignments count for 35% of your grade.

I. The Political Economy of Regulation: Theory

- Sept. 7 **The Economic Rationale for Regulation**
Breyer, "Typical Justifications for Regulation" (1982; from *Regulation and Its Reform*)
- Sept. 12 **The Political Economy of Regulation**
Noll and Owen, "The Political Economy of Deregulation: An Overview" and "The Predictability of Interest Group Arguments" (1983; from *The Political Economy of Deregulation*).

II. Banking

- Sept. 14 **Background Issues; Genesis of Regulation**
The Future of Banking Chs. 1, 2, and 3.
Huertas, "The Regulation of Financial Institutions: A Historical Perspective on Current Issues" (1983)
- Sept. 19 **Industry Changes and Regulatory Reform: Processes and Consequences**
Phillips, "The Metamorphosis of Markets: Commercial and Investment Banking (1978)
Phillips and Jacobs, "Reflections on the Hunt Commission" (1983)
S&A
- Sept. 21 **Deposit Insurance, Safety and Soundness, and the S&L Debacle**
The Future of Banking Ch. 5.
White, "The Reform of Federal Deposit Insurance" (1989) **S&A**
- Sept. 26 **...And Yet Another Attempt at Reform!**
The Future of Banking Ch. 4.
"America's Banking Battles," *Economist* (1993)
"The Banker's Burden" *The Economist* (1993)
- Sept. 28 **What's Next In Banking?**
"Treasury's Vehicle for Bank Reform," *Bank Management* (1995)
"New Tricks to Learn" *The Economist* (1993)
"America's Latest Financial Fling," *Economist* (1995)
"Who Lost Barings?" *Economist* (1995)
- Oct. 3 **The Politics of Financial Institution Reform** A Class Simulation
- Oct. 5 **What Does It All Mean?**
A Class Discussion: Financial Services, Regulation, and the Global Market

III. Telecommunications...For Now

- Oct. 10 **The Evolution of the Industry I**
*Telecommunications in Turmoil: Technology and Public Policy*Faulhaber
(1987) **This book is on reserve at Lippincott**
- Oct. 12 **The Evolution of the Industry II**
*Telecommunications in Turmoil: Technology and Public Policy*Faulhaber
(1987) **S&A**
- Oct. 17 **Fall Break**
- Oct. 19 **The Antitrust Case**
Bell, "The Decision to Divest: Incredible or Inevitable?" (1985)
Phillips, "Humpty Dumpty Had a Great Fall" (1986)
Zajac, "Telecommunications: An Example of Policy gone Awry" (1988)
S&A
- Oct. 24 **The MFJ: Still the Right Answer?**
Opinion of Judge Harold Greene (in part) *U.S. v. Western Electric Co., Inc.* September 10, 1987
Dennis, "Modifying the Modified Final Judgment -- Removing the Barnacles" (1987)
- Oct. 26 **Post-Divestiture Regulation**
"Price Cap Performance Review" Federal Communications
Commission(1993)
"Telecom Reform: New Congress, New Bill," *Public Utilities Fortnightly*
(1995)
- Oct. 31 **Telecoms Policy: US and Japan**
Noll and Rosenbluth, "Telecommunications Policy in Japan and the
US: Structure, Process, Outcomes" (1993) **S&A**
- Nov. 2 **CONRAIL: Regulation to Competition and How It Happened**
Constance Abrams, General Counsel, CONRAIL
- Nov. 7 **Midterm Exam**

IV. Cable Television...For Now

- Nov. 9 **The Evolution of the Industry**
*FCC Policy on Cable Ownership*Gordon, Levy, and Preece (1981) **S&A**
pp 1-50

- Nov. 14 **Cable, Broadcast, and the 1984 Cable Act**
Broadcast Television in a Multichannel Marketplace Setzer and Levy
(1991). pp 1-14, 112-172.
- Nov. 16 **Cable After Deregulation**
The Cable Colossus Washington Post (1992)
FCC Report to Congress Competition and Deregulation (1990) pp 1-23, 27-
42, 51-59, 72-76, 99-100
- Nov. 21 **Cable Gets Re-Regulated**
Rubinovitz, "Market Power and Price Increases for Basic Cable Since
Deregulation" (1993)
Hazlett, "Cable TV Re-Regulation: The Episodes You Didn't See on C-
Span" (1993) **S&A**
Brenner, "Programming and Rate Regulation: The 1992 Cable Act Goes
Tilt" (1993)

V. The I-Way

- Nov. 23 **Thanksgiving**
- Nov. 28 **Whither the Local Monopoly?**
"End of the Line" *The Economist* (1993)
- Nov. 30 **"I Don't Know What It Is, But It's Time Has Come"**
"Make Way for Multimedia" & "The Tangled Webs They Weave" *The
Economist* (1993)
"The Accidental Highway," *Economist* (1995)
- Dec. 4 **Public Policy and the Infobahn**
"Demystifying the Information Highway," *Management Review*, 1994
"Perspectives on the U.S. 'Agenda for Action' and Infrastructure
Developments," *Telecommunications* 1994
"Damn the Consumers -- Full Speed Ahead," *Vital Speeches of the Day*
1994
- Dec. 6 **Course Review**
A Class Discussion: Regulation, Public Policy, and the Electronic Future
Take-Home Final Exam to be Handed Out

Bulkpack Table of Contents

1. Breyer, "Typical Justifications for Regulation" (1982; from *Regulation and Its Reform*)
2. Noll and Owen, "The Political Economy of Deregulation: An Overview" and "The Predictability of Interest Group Arguments" (1983; from *The Political Economy of Deregulation*).
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20. Noll and Rosenbluth, "Telecommunications Policy in Japan and the US: Structure, Process, Outcomes" (1993)
21. *FCC Policy on Cable Ownership*Gordon, Levy, and Preece (1981)

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23. *The Cable Colossus* Washington Post (1992)
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30. "The Accidental Highway," *Economist*(1995)
31. "Demystifying the Information Highway," *Management Review*,1994
32. "Perspectives on the U.S. 'Agenda for Action' and Infrastructure Developments," *Telecommunications* 1994
33. "Damn the Consumers -- Full Speed Ahead," *Vital Speeches of the Day*1994