

Study questions: Regulation

References

Wolak (1994), Joskow (1974)

In reading the two papers, focus on the differences between them in how the regulatory process is modelled.

I. Wolak (1994)

For an overview of the mechanics of the basic single-principal/single-agent mechanism design problem, see the first half of Fudenberg and Tirole (1991, ch. 7). See Baron (1989) (especially the appendix) for more specific applications to optimal regulation (including the application considered in this paper).

1. What is the sequence of events in the theoretical model which underlies the analysis? What is “chosen” by the firm? What is “chosen” by the regulator?
2. What is the source of asymmetric information in this model?
3. What type of data are utilized? What are the dependent variables? What are the independent variables?

II. Joskow (1974)

For a review of the Averch-Johnson hypothesis, take a look at chapter 10 of Viscusi, Vernon, and Harrington (1995) or the discussion in Baron (1989).

1. What is the nature of the regulatory process in this paper? How does it differ from the one considered in Wolak (1994)?
2. **Mini-assignment** Sketch out the firm’s and/or the regulator’s objective function according to the analysis of Joskow. How is it similar or different to the optimal regulation framework considered in the Wolak paper (and the mechanism design literature)? Please bring an answer to class and be prepared to discuss it.
3. Compare the implications of the arguments by Joskow, Averch-Johnson, and the optimal regulation literature concerning production efficiency (i.e., cost minimization).

References

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- FUDENBERG, D., AND J. TIROLE (1991): *Game Theory*. MIT Press.
- JOSKOW, P. (1974): “Inflation and Environmental Concern: Structural Change in the Process of Public Utility Regulation,” *Journal of Law and Economics*, 17(2), 291–327.
- VISCUSI, W. K., J. VERNON, AND J. HARRINGTON, JOSEPH E. (1995): *Economics of Regulation and Antitrust*. MIT Press, 2nd edn.
- WOLAK, F. (1994): “An Econometric Analysis of the Asymmetric Information Regulator-Utility Interaction,” *Annales d’Economie et de Statistique*.