The Economics of Regulation:  
Contractual and Institutional Perspectives

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This course deals with the way the government regulates the provision of service in a market economy, either because it is a public good, or because competition could yield inefficiencies. Instead of providing exhaustive views of the different economic theories of regulation and public service, it provides insights of the main trade-offs at stake relying on institutional and organizational economics. Contract, regulation and institution theories will be alternatively relied upon to introduce the audience to the main theoretical and applied issues.

Class 1. Why Regulate and How?  
MONDAY MARCH 30TH, 11.00-13.00

The aim of this class is to introduce the alternative explanations for governmental regulation, and to present the essential tradeoffs faced by regulators facing a (monopolistic) firm. The (complete) contract approach will be presented as well as a brief history of the policy evolutions for the past 30 years.

** read in priority


- Joskow P. L., Regulation of Natural Monopolies, in A. Mitchell Polinsky & Steven Shavell (eds), Handbook of Law and Economics 2007
Class 2. Contracting for public good provision: transaction costs and regulation by incomplete contracts

MONDAY MARCH 30TH, 15.00-17.00

The aim of this class is to discuss the complexity faced by governments when attempting to contract the provision of a public service to a firm. The franchise bidding solution was proposed Demsetz in 1968, and has been extensively discussed since then. Analyses proposed by Transaction Cost Economics (Williamson 1976) and by the Incomplete Contract Theory will be presented. Some recent empirical developments will be proposed too.


Class 3: Contracting with the Government: Collusion, Lobbying, Third Party Opportunism, ...

TUESDAY MARCH 31ST, 11.00-13.00

Any ‘contract’ between the Government and a firm — whether it is question of provision of public service, or regulatory constraints — raises issues because of the Government, is both one of the parties and the last resort enforcer of the mutual commitments. Moreover, the politicians and bureaucrats are subject to political and organizational constraints, which generate specific contracting risks. The issue of “governmental failures” will be introduced in this class


Class 4: Political Economy of Regulation and Market Institutions

TUESDAY MARCH 31ST, 15.00-17.00
Markets are non-neutral complex social technologies. The organization and regulation of markets by the governments cannot be understood if ignoring the political economy of institutions. The political origin of markets explains why the political background frame the issues to be dealt with, and the feasibility of any policy or reform. This class will introduce the political economy of the manufacturing of markets.


Class 5: Governance in Network Industries: lessons learnt from “New Institutional Economics”
TUESDAY 21 APRIL 21ST, 11.00-13.00

This class will be based on the contribution of the Nobel laureates Coase (1991), North (1994), Williamson (2009) and Ostrom (2009) to highlight how the conceptual approaches they propose provide a relevant framework to analyze the essential challenges in regulating network industries.